



Českomoravská záruční a rozvojová banka, a.s., (Czech-Moravian Guarantee and Development Bank) is the national promotional bank of the Czech Republic which contributes to its economic and social development. With the use of the state budget funds, regional budgets and European funds, the Bank provides financial instruments in the form of guarantees, preferential loans and capital input.

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# Introduction by the Chairman of the Board of Directors

The year 2020 was the most challenging period in the history of the Czech-Moravian Guarantee and Development Bank – Českomoravská záruční a rozvojová banka, a.s. (hereinafter "ČMZRB" or the "Bank"). Coronavirus and related measures have prevented many companies from doing business or have significantly reduced their activities. Thus, especially in the first wave, the Bank played a key role in supporting business and provided entrepreneurs with a larger amount of support over the year than the sum for the record-breaking years 2018 and 2019. Although the agenda associated with the so called COVID programmes exhausted especially the Bank's personnel capacity for many months, ČMZRB took further steps in fulfilling its strategy for the period of 2020– 2023, mainly in the area of infrastructure development and business support in the form of capital inputs.

The past year hit the business sector hard, in a way we had not been accustomed to in recent history. The activities of some fields literally stopped, which brought about a downturn in the Czech economy. This was reflected, among other things, in the growing demand of entrepreneurs for working capital financing. However, commercial banks were cautious when it came to providing such loans. The tightening of conditions took place as early as mid-2020 and this trend continues, as there is a risk that a relatively high percentage of applicants will not be able to repay their loans as a result of the ongoing global economic crisis associated with the coronavirus pandemic. Therefore, the financial instruments provided by ČMZRB became even more important and, thanks to them, the risk of what is termed a credit crunch was eliminated. In 2020, the Bank helped finance 10,636 business projects with the volume exceeding CZK 51 billion of directly provided or guaranteed loans. Compared to the record-breaking year 2019, 2.2 times more support flowed into the economy thanks to the Bank.

The introduction of anti-coronavirus measures and the related growing demand for working capital financing led to the launch, in a record short time, first of the COVID Loan programme and then of the COVID II and COVID Prague guarantee programmes and finally of the COVID III guarantee programme. Through it, ČMZRB guarantees the credit portfolios of commercial banks and savings cooperatives and, because of its capacity (up to CZK 500 billion of guaranteed loans), it is an instrument that can satisfy the increased demand of companies for working capital or investment financing in the long run. Over two thirds of the assistance that ČMZRB provided to entrepreneurs in 2020 was drawn from the COVID programmes.

During 2020, support for family businesses was launched and further adjustments were made to the Expansion, INFIN and S-enterprise programmes. The activities of family companies, which carry the official status of "family business", fall under the so-called special supported activities, and they can thus qualify for the Expansion guarantee and loan programme under even better conditions. What is termed the GEN guarantee provided under the Guarantee 2015-2023 programme, in turn, makes it easier to hand over family businesses to their successors. In 2020, the products of ČMZRB assisted every fifth company constituting a family business. The Expansion programme can now also be used to purchase already used or refurbished machines and technologies. The S-enterprise programme offers interestfree working capital financing to social enterprises and, under the INFIN programme, companies can draw financial contributions to pay interests on co-financing credits.

In addition, the Bank continued to be actively involved in the activities of European associations of development or guarantee institutions, such as ELTI, AECM and NEFI. This cooperation brings with it the sharing of experience in providing support to entrepreneurs across countries, identifies threats and opportunities in the use of EU financial instruments and enables participation in activities related to the preparation of the next programming period. Membership in such associations during the time of coronavirus has therefore become increasingly important.

In line with the Bank's strategy for the period from 2020 to 2023, the activities of its subsidiaries were expanded. In the course of 2020, ČMZRB Investments (ČMZRB investiční, a.s.) prepared a programme entitled "Venture Capital – IPO Fund". Through that programme, as of 1 February 2021, it purchases minority shares in small and medium-sized enterprises that issue their shares on the START market of the Prague Stock Exchange, up to 30% of the issue. ČMZRB Investments is also preparing a programme focused on the transformation of

brownfields in the Ostrava metropolitan area into functional business facilities, in the form of junior financing. The programme should be launched in the middle of this year.

The National Development Fund SICAV j.s.c. was established in February 2020. At the same time, ČMZRB submitted an application to the Czech National Bank for a licence to operate the fund. The licence was granted in November 2020 and, on 1 February 2021, the National Development Fund (the "Fund") was officially established. The main objective of the Fund will be to support the development of the Czech infrastructure using private capital. These will be profitable projects, e.g. in the field of transport, education, health, social care, energy and the environment.

The ČMZRB Group established cooperation with the City of Pardubice and the Moravian-Silesian Region. Both entities plan to invest in the development of infrastructure in the near future and the Bank, i.e. the National Development Fund, is ready to provide them with appropriate funding.

Although the activities of the ČMZRB Group are growing, its main scope of activities remains the provision of support to small and medium-sized enterprises in the Czech Republic. The year 2020 pointed out its weaknesses. Its next steps will therefore be to invest in digitization so that it can be a fully paperless bank in the future.

The goal is for the Bank to be a long-term stable partner of Czech entrepreneurs, with whom there is not only professional but also fast and administratively undemanding communication. In addition, ČMZRB focuses on strengthening and deepening cooperation with all the state administration authorities for which it manages support programmes or with which it implements, or will implement, activities related to the operations of newly emerging subsidiaries. It will expand cooperation with EU institutions and foreign development banks and make the most of their know-how. It will take appropriate steps to ensure that the Czech Republic makes the most of the next programming period, whether in the area of support for small and medium-sized enterprises or infrastructure development.

In 2020, the Bank faced a difficult test, which it passed. In a single year, ČMZRB guaranteed and provided loans to self-employed persons and enterprises operating in the Czech territory in the amount exceeding CZK 51 billion, i.e. more than double compared to 2019. The Bank achieved excellent business results mainly thanks to its employees, who, with maximum effort and professionalism, assessed and approved tens of thousands of applications or otherwise contributed to overcoming the pressure that the Bank faced in the past year. Thanks also go to our colleagues from partner institutions, such as the Czech Export Bank, CzechInvest and the State Environmental Fund, which strengthened the Bank's staff capacity in the spring. For the first time in history, the limit of 10,000 financed projects was surpassed thanks to long-term cooperation with commercial banks and leasing companies.

I very much appreciate the efforts of the representatives of the shareholders, thanks to whom ČMZRB can be a partner of entrepreneurs not only in times of economic growth but especially in times of crisis, and who allow it to direct its activities to new areas as well. I firmly believe that the national promotional bank, which ČMZRB is, already has an irreplaceable place on the market today, and its role will be further strengthened in the future, especially in the area of business support and the development of infrastructure and the related long-term economic growth.

**Jiří Jirásek** Chairman of the Board of Directors



# **Bank management bodies**

Board of Directors	
Chairman of the Board of Directors	Jiří Jirásek
Members of the Board of Directors	Ivan Duda (membership terminated by expiry of the office on 31 March 2020)
	lvo Škrabal (re-elected from 1 April 2020, membership terminated by resignation on 30 April 2020)
	Pavel Fiala (elected from 1 April 2020)
	Křivonožka (elected from 1 September 2020)
Supervisory Board	
Chairman of the Supervisory Board	Pavel Závitkovský
Deputy Chairman of the Supervisory Board	Martin Hanzlík (Deputy Chairman since 11 February 2020)
Members of the Supervisory Board	Lenka Dupáková (re-appointed from 28 April 2020)
	Marie Kotrlá
	Pavel Kysilka (appointed from 29 April 2020)
	Jan Dej (membership terminated by resignation on 28 April 2020)
	Olga Nebeská
Audit Committee	
Chairman of the Audit Committee	Milan Novák
Deputy Chairman of the Audit Committee	Pavel Závitkovský
Member of the Audit Committee	Tomáš Hlivka

### **Organisational chart of the Bank General Meeting Supervisory Board Audit Committee Board of Directors Chief Executive Officer CEO** Division **Trade Management Division Financial Division** Accounting, Treasury Department Independent Internal Prague Branch Methodology and Audit Department Reporting Department Product Development Risk Management Project Team and Methodology Brno Branch Department Department Non-performing Department of Financing CEO Office Ostrava Branch Receivables Department Human Resources Hradec Králové Middle Office Branch Department Unit Information Technical Technology Administration Pilsen Branch Department Strategy and Marketing Department České Budějovice Regional office Legal and Compliance Department Postal and File Services Unit Payment Settlements Department

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Business Development Department

REPORT OF THE BOARD OF DIRECTORS ON THE BANK'S ACTIVITIES AND THE STATE OF ITS ASSETS FOR THE FISCAL YEAR 2020



# **Economic performance**

#### Basic economic characteristics of the Bank in the years 2016–2020

		Unit	2016	2017	2018	2019	2020
Balance sheet total		CZK millions	27,612	23,436	24,105	23,983	30,057
	Deposits and credits with banks	CZK millions	78	262	661	1,133	3,205
of assets:	Securities accepted by the CNB for refinancing	CZK millions	16,195	15,430	16,886	15,499	18,168
	Debt securities	CZK millions	4,308	3,047	2,145	1,620	1,294
	Equity	CZK millions	5,359	5,086	4,861	4,929	4,876
of lightlition	Debt	CZK millions	22,253	18,350	19,244	19,054	25,181
of liabilities:	of which: Provisioning	CZK millions	3,165	3,214	3,338	3,583	3,311
	Credit risk funds	CZK millions	2,011	1,990	2,212	2,626	6,870
Off-balance sheet:	guarantees issued	CZK millions	18,922	18,622	19,862	24,023	43,705
Revenues (s	Revenues (sum of account class 7)		2,453	2,023	2,376	2,725	2,476
6 1 1 1	Interests on securities and interbank operations	CZK millions	319	281	404	546	335
of which:	Interests on transactions with clients	CZK millions	329	226	164	123	76
	Revenues from fees and commissions	CZK millions	323	293	285	294	357
Costs (sum o	of account class 6)	CZK millions	2,425	1,994	2,348	2,687	2,452
	Operating costs	CZK millions	483	367	368	371	434
of which:	Net creation of provisions and impairment provisions	CZK millions	102	319	214	207	227
Profit after ta	х	CZK millions	28	29	28	38	24
Capital ratio		%	19.9	21.5	22.3	21.2	22.0

In the area of guarantee business, the Bank recorded a significant increase in new transactions within the framework of portfolio guarantees in the EXPANSION-COVID and COVID Prague programmes, which are financed from the European Structural and Investment Funds. In the course of May 2020, the guarantee bank began to provide guarantees to lending institutions under the COVID III Programme; the guarantee is kept in the accounts under individual lending institutions in the amount of the cap limit. As in previous years, guarantee transactions within the National Programme were financed from the Bank's own resources, from the EIF-COSME counter-guarantee funds and from the resources of the programme sponsor (the MIT). Loan transactions were then financed mainly from the European Structural and Investment Funds under the EXPANSION programme. The total value of the guarantee and loan portfolios increased by 75.6%, to a total value of CZK 50.1 billion, of which the guarantee portfolio increased by 81.9%, to CZK 43.7 billion.

The net profit achieved after tax in the amount of CZK 24 million is in line with the net profit generation strategy approved by the Bank's shareholder, which does not require the Bank to generate a net profit as the primary objective of financial management. The amount of equity did not change year-on-year and remained at CZK 4.9 billion. The

capital ratio reached 22.0% as at 31 December 2020, i.e. 0.8 of a percentage point more than at the end of the previous year.

The most significant risk incurred by the Bank continued to be the credit risk, to which 93.8% of the risk-linked capital was allocated. At the end of 2020, all expected credit risk losses were fully covered by created provisions and adjustments in the amount corresponding to the international accounting standard IFRS 9 and the total balance sheet value of provisions and adjustments for credit risks amounted to CZK 4 billion. Credit risks for some types of guarantee products were covered by credit risk funds provided by programme sponsors in the total amount of CZK 6.9 billion. In addition, at the end of the year, the Bank had reserve funds in equity of CZK 1.35 billion.

The balance sheet total increased by 25.3% to CZK 30 billion at the end of 2020 (in 2019: CZK 24 billion). Liabilities to financial institutions decreased by CZK 0.5 billion, liabilities to clients increased by CZK 7 billion, provisions decreased by CZK 0.3 billion and other liabilities decreased by CZK 0.2 billion. On the assets side, these changes were matched by an increase in receivables from clients by CZK 1.5 billion, an increase in the value of bonds by CZK 2.3 billion, an increase in receivables from banks by CZK 2.1 billion and an increase in other assets by CZK 0.1 billion. The value of the balance sheet total does not include bank guarantees issued by ČMZRB, a.s., for loans to small and medium-sized entrepreneurs and guarantees for loans provided by credit institutions under the COVID III programme, which form a significant part of the Bank's business activities and credit exposure.

Their value at the end of 2020 was CZK 43.7 billion (of which: COVID III CZK 5.4 billion).

The Bank's financial investments of CZK 22.7 billion (75.5% of net assets) are largely made up of investments in debt

securities (64.7% of net assets), receivables from clients (23.2% of net assets) and receivables from banks (10.7% of net assets).

The share of non-profit assets in the net balance sheet value was 1.2%.

Source coverage on the liabilities side was provided mainly by liabilities to clients – programme sponsors (68.9% of liabilities) and banks (3.1% of liabilities), equity (16.2% of liabilities), provisions (11.0% of liabilities), temporary and other liabilities.

Indicator	Unit	2016	2017	2018	2019	2020
Tier 1 (T1) capital	CZK millions	4,516	4,532	4,542	4,552	4,551
Common Equity Tier 1 (CET1) capital	CZK millions	4,516	4,532	4,542	4,552	4,551
Instruments eligible to CET1 capital	CZK millions	2,632	2,632	2,632	2,632	2,632
Paid-up CET1 instruments	CZK millions	2,632	2,632	2,632	2,632	2,632
The Bank's own acquired CET1 instruments	CZK millions	0	0	0	0	0
The Bank's own CET1 instruments acquired directly	CZK millions	0	0	0	0	0
Retained earnings/accumulated losses	CZK millions	756	766	775	793	819
Retained earnings/unrecovered loss for the previous period	CZK millions	756	766	775	793	819
Accumulated other comprehensive income (OCI)	CZK millions	0	0	0	0	0
Other reserve funds	CZK millions	1,150	1,150	1,150	1,150	1,150
CET1 capital adjustments resulting from the use of prudent filters	CZK millions	-1	-1	-1	0	0
Value adjustments according to prudent valuation requirements	CZK millions	-1	-1	-1	0	0
Other intangible assets	CZK millions	-21	-15	-14	-21	-48
Other intangible assets – gross value	CZK millions	-21	-15	-14	-21	-48
Other temporary adjustments to CET1 capital	CZK millions	0	0	0	0	0
Over-limit major investments in entities from the financial sector	CZK millions	0	0	0	-2	-2
Tier 2 (T2) capital	CZK millions	0	0	0	0	0
Capital	CZK millions	4,516	4,532	4,542	4,552	4,551
Total risk exposures	CZK millions	22,666	21,071	20,358	21,516	20,692
Indicator	Unit	2016	2017	2018	2019	2020
Risk-weighted exposure amounts for credit risk At STA total	CZK millions	20,583	19,378	18,864	20,193	19,392
Exposures to central governments and central banks	CZK millions	0	0	219	407	561
Exposures to regional governments and local authorities	CZK millions	168	159	150	141	124
Exposures to public sector entities	CZK millions	0	0	15	3	2
Exposures to international development banks	CZK millions	0	0	0	0	0
Exposures to international organisations	CZK millions	0	0	0	0	0
Exposures to institutions	CZK millions	777	653	375	158	142

#### Report of the Board of Directors on the Bank's activities and assets for the fiscal year 2020

Indicator	Unit	2016	2017	2018	2019	2020
Exposures to enterprises	CZK millions	17,343	16,572	16,132	16,511	14,601
Exposures to retail	CZK millions	72	108	477	1,514	2,078
Exposures secured by real estate	CZK millions	90	60	35	24	26
Exposures in default	CZK millions	828	774	698	845	1,229
High-risk exposures	CZK millions	1,018	757	555	373	432
Exposures in covered bonds	CZK millions	61	40	0	0	0
Exposures to institutions and enterprises with a short-term credit rating	CZK millions	39	40	27	13	2
Collective investment instruments	CZK millions	0	0	0	0	0
Shares	CZK millions	1	50	51	52	53
Other exposures	CZK millions	186	165	130	152	141
Risk exposures for position risk, currency and commodity risk at STA	CZK millions	0	0	2	2	9
Marketable debt instruments	CZK millions	0	0	2	2	9
Currency trades	CZK millions	0	0	0	0	0
Total risk exposures for operational risk	CZK millions	1,946	1,636	1,456	1,301	1,276
Operational risk – BIA approach	CZK millions	1,946	1,636	1,456	1,301	1,276
Risk exposures for valuation adjustments for total credit risk	CZK millions	137	57	36	20	15
Standardised method	CZK millions	137	57	36	20	15
Capital ratio for Common Equity Tier 1 capital	%	19.93	21.51	22.31	21.16	21.99
Capital ratio for Tier 1 capital	%	19.93	21.51	22.31	21.16	21.99
Capital ratio for total capital	%	19.93	21.51	22.31	21.16	21.99
Return on average assets (ROAA) <sup>1)</sup>	%	0.04	0.1	0.11	0.15	0.08
Return on average equity (ROAE) <sup>1)</sup>	%	0.68	0.63	0.61	0.84	0.52
Assets per employee <sup>1)</sup>	CZK millions	130.2	110	112.6	111.6	126.3
Administrative costs per employee <sup>1)</sup>	CZK millions	1.5	1.5	1.5	1.5	1.6
Net profit per employee <sup>1)</sup>	CZK millions	0.1	0.1	0.1	0.2	0.1

<sup>&</sup>lt;sup>1)</sup> The calculation was performed in accordance with Decree No. 163/2014 Coll., on the performance of activities of banks, credit unions and investment firms.

# Reconciliation of regulatory and accounting capital

The tables below summarise the composition of regulatory and accounting capital and individual indicators as at 31 December 2020 and 31 December 2019, thus providing a complete reconciliation of the individual items of regulatory capital to the institution's capital and Balance Sheet.

	Regulatory capital	Equity
As at 31 December 2020	CZK millions	CZK millions
Paid–up registered capital entered in the Commercial Register	2,632	2,632
(-) Capital investments in the Bank's own instruments	_	_
Retained earnings from previous periods	819	819
Current year profit	_	24
Accumulated other comprehensive income	-	51
Other reserve funds	1,150	1,350
(-) Additional value adjustments (AVA) according to the requirements for prudent valuation	-	-
(–) Intangible assets other than goodwill	-48	_
(-) Over-limit major investments in entities from the financial sector	-2	_
Total capital eligible for Tier 1 classification	4,551	
Total equity		4,876
Total amount of Tier 2 capital	0	
Capital relevant for the calculation of large exposure limits, qualifying holding limits and capital ratios	4,551	

As at 31 December 2019	Regulatory capital CZK millions	Equity CZK millions
Paid–up registered capital entered in the Commercial Register	2,632	2,632
(-) Capital investments in the Bank's own instruments	_	-
Retained earnings from previous periods	793	793
Current year profit	_	38
Accumulated other comprehensive income (OCI)	_	116
Other reserve funds	1,150	1,350
(-) Additional value adjustments (AVA) according to the requirements for prudent valuation	_	-
(-) Intangible assets other than goodwill	-21	-
(-) Over-limit major investments in entities from the financial sector	-2	_
Total capital eligible for Tier 1 classification	4,552	
Total equity		4,929
Total amount of Tier 2 capital	0	
Capital relevant for the calculation of large exposure limits, qualifying holding limits and capital ratios	4,552	

# Business activities of ČMZRB in 2020

# 1. Product overview

In 2020, the Bank provided the following products:

### a) Guarantees

- GUARANTEE 2015-2023 programme:
  - A portfolio guarantee for small and medium-sized enterprises for a bank loan with a guarantee rate of 70% of the loan principal provided for loans up to CZK 4 million,
  - An individual guarantee for a bank loan with a guarantee rate of 80% of the loan principal provided to social entrepreneurs (small and medium-sized enterprises), with a maximum guarantee amount of CZK 20 million, including a financial contribution in the amount of 10% of the guaranteed loan drawn on eligible expenses, in the maximum amount of CZK 500,000.
- EXPANSION–GUARANTEES programme
  - The COVID II portfolio guarantee with a financial contribution for bank loans up to CZK 15 million with a guarantee rate of 80% of the loan principal. The client can also apply for a financial contribution of up to CZK 1 million to pay interest of the loan. The guarantee period is three years. The objective of the programme is to facilitate access to operational financing for small and medium-sized enterprises whose economic activities are limited as a result of the coronavirus pandemic and the related preventive measures. The guaranteed commercial loan can be used exclusively to cover operating expenses, such as wages, rent, energy, supplier-customer invoices, materials, inventories, etc.
  - A portfolio guarantee for small and medium-sized enterprises for a bank loan from CZK 4 to 40 million with a guarantee rate of 70% of the loan principal.
  - A portfolio guarantee for small and medium-sized enterprises for special supported activities for a bank loans with a guarantee rate of 80% of the loan principal (special supported activities are: efficient use of water in industry, development of high-speed Internet, calamity timber logging and processing, business centres development, material and energy recovery of waste, project implementation in one of economically affected regions, family businesses).
- INTERNATIONAL DEVELOPMENT COOPERATION GUARANTEE (IDCG) programme – a guarantee for enterprises without size restrictions for a bank loan financing the implementation of projects with a development impact in selected developing countries,

with a guarantee rate of 50% of the loan principal, maximum guarantee amount of CZK 25 million.

- INOSTART programme a guarantee for a bank loan up to CZK 15 million for start-up small and medium-sized enterprises implementing innovative projects across the Czech Republic with a guarantee rate of 60% of the credit principal, increased to 70% of the loan principal from 20 June 2019.
- VADIUM 2018-2023 programme a guarantee for tender bids for small and medium-sized enterprises in the amount of CZK 50,000 to CZK 5 million.
- COVID PRAGUE programme a guarantee for bank loans for small and medium-sized enterprises operating in Prague who were negatively affected by government measures against the spread of coronavirus. The guarantee parameters are the same as in the case of COVID II.

### b) Loans

- EXPANSION-LOANS programme – interest-free investment loans for small and medium-sized enterprises across the Czech Republic (except the City of Prague) in the amount of up to CZK 45 million, with a maturity of up to ten years and a financial contribution to pay commercial loan interest of up to CZK 2 million. For special supported activities (family businesses, efficient use of water in industry, NGA (Next Generation Access networks, calamity timber processing, business centres development, material and energy recovery of waste), the loan limit is up to CZK 60 million and the financial contribution is up to CZK 4 million. The programme is funded by the ESI Funds under the Operational Programme Enterprise and Innovations for Competitiveness.
- ENERGY SAVINGS programme preferential interestfree loans for enterprises, regardless of size, across the Czech Republic (with the exception of the City of Prague), for energy savings projects, up to CZK 60 million, with a maturity of up to ten years, a financial contribution for the acquisition of energy assessment in the amount of up to CZK 250,000, and if savings are achieved, also a financial contribution to pay interest on a commercial loan in the amount of up to CZK 4 million. The programme is funded by the ESI Funds under the Operational Programme Enterprise and Innovations for Competitiveness.
- ENERG programme preferential interest-free loan for small and medium-sized enterprises and their projects in the City of Prague, focused on energy savings in their business activities in the amount of up to CZK 20 million, with a maturity of up to ten years, a financial contribution for energy assessment of up to CZK 100,000 and a financial contribution of 7% of the

drawn amount of the soft loan when achieving energy savings.

- Programme of preferential regional loans for small enterprises in the South Bohemian Region – loans for small enterprises up to CZK 1 million, with a fixed interest rate of 3% p.a. and a maturity of up to six years.
- Regional Development Fund long-term loans for municipalities and associations of municipalities (with the exception of the City of Prague) to co-finance projects in order to improve local infrastructure for business and non-business purposes, up to CZK 30 million, with a preferential fixed or floating interest rate determined individually according to current market conditions and with a maturity of up to ten years.
- MUNICIPALITY 2 programme long-term loans for cities, municipalities and associations of municipalities in the Czech Republic to finance investments in order to improve living conditions or protect the environment, up to CZK 130 million, with a fixed or floating interest rate determined individually according to current market conditions and with a maturity of up to 15 years.
- INFIN programme preferential interest-free loans for the implementation of innovative business projects or projects of innovative entrepreneurs within the territory of the City of Prague in the amount of up to CZK 15 million with a maturity of up to ten years; the programme is intended for small and medium-sized entrepreneurs for whom no more than seven years have passed since the start of their commercial activities; a part of the programme is specifically focused on enterprises with a short history. The programme is financed from the ESI Funds within the Operational Programme Prague – Growth Pole of the Czech Republic.
- S-ENTERPRISE programme preferential loans of up to CZK 25 million with a maturity of up to 12 years, facilitating the financing of investment projects aimed at starting or developing business activities for social enterprises. Projects can be implemented anywhere in the Czech Republic, including the City of Prague. The programme is financed from the ESI Funds within the Operational Programme Employment.
- COVID programme interest-free working capital loans in the range of CZK 500,000 up to CZK 15 million. The objective of the programme was to facilitate access to operational financing for small and medium-sized enterprises whose economic activities were limited as a result of the coronavirus pandemic and related preventive measures.

### 2. Business support

#### a) Overall results

The Bank supported small and medium-sized enterprises (hereinafter "SME support"), mainly on the basis of agreements concluded with the Ministry of Industry and Trade.

In 2020, the main guarantee programme supporting small and medium-sized enterprises was the Guarantee 2015-2023 programme, which was launched in February 2015.

The majority of the programme consisted of guarantees for working capital loans. The results of the implementation of this programme confirmed the growing interest in the use of guarantees in 2020. In addition to national resources, the Guarantee 2015-2023 programme is also financed by the European Investment Fund under the COSME programme.

Another major guarantee programme supporting small and medium-sized enterprises was the EXPANSION-GUARANTEES programme, which was launched in February 2019. This programme runs within the Operational Programme Enterprise and Innovations for Competitiveness (OP EIC) with the expected acceptance of applications for support until 2023.

As a result of the coronavirus pandemic and related preventive measures, the COVID II programme was launched in the spring of 2020 as part of the EXPANSION-GUARANTEES programme.

A similar programme called COVID Prague was launched for enterprises from Prague affected by coronavirus.

Another programme that eliminates the effects of the pandemic is the COVID III programme. The programme is designed for SMEs as well as large enterprises. ČMZRB cooperates with a total of 20 financial institutions. In 2020, 12 financial institutions were already creating guaranteed portfolios.

As part of the INOSTART programme, the provision of loan guarantees for start-up entrepreneurs for innovationoriented projects continued in 2020. Loans supported by the ČMZRB guarantee are provided by Česká spořitelna.

A major loan programme supporting small and mediumsized enterprises in 2020 was the EXPANSION-LOANS programme, which was launched in June 2017. This programme is implemented within the framework of the Operational Programme Enterprise and Innovations for Competitiveness (OP EIC) and will run until the end of 2023. The conditions of the programme were amended several times during the operation of the programme, which had a major impact on the growing interest of small and mediumsized enterprises in loans under this programme.

A loan programme that had been helping entrepreneurs affected by the coronavirus crisis since March 2020 was the COVID programme.

Other loan programmes in 2020 were the ENERG programme and the ENERGY SAVINGS programme. The goal of both programmes is to reduce energy consumption.

In April 2019, the INFIN programme was launched, the aim of which is to increase the offer of available financing for innovative business projects implemented within the territory of the City of Prague. The programme is implemented together with the City of Prague within the Operational Programme Prague – Growth Pole of the Czech Republic (OP PGP). On the basis of an agreement with the Regional Authority of the South Bohemian Region, preferential loans were also provided to small and minor enterprises (including start-ups) to finance projects implemented in that region.

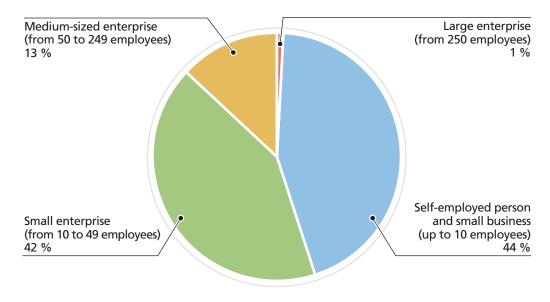
In 2020, we were pleased to be able to provide loans under the S-ENTERPRISE programme. These loans make it easier for social enterprises to finance investment projects aimed at starting or developing a business.

### Summary results for standard programmes of ČMZRB and COVID programmes

#### Table 1 Supported projects in total (excluding guarantees in the VADIUM programme)

		GUARANTEES			REDITS
	Number	Amount of guarantees in CZK millions	Amount of guaranteed credits in CZK millions	Number	Amount of credits in CZK millions
Standard programmes	3,497	9,483	14,254	314	1,699
COVID programmes	6,589	29,040	34,286	165	928
Total programmes	10,086	38,523	48,540	479	2,627

#### Chart 1 Supported projects broken down by business entities



#### Standard ČMZRB programmes (excluding COVID programmes)

#### **Guarantees (excluding COVID programmes)**

On the basis of guarantee agreements concluded in 2020, the Bank provided 3,497 guarantees in the total amount of CZK 9,483 million. The guarantees supported loans in the amount of CZK 14,254 million (see Table 2).

#### Guarantees and guaranteed loans provided (excluding guarantees in the VADIUM programme)

INDICATOR		2016	2017	2018	2019	2020
Guarantees provided	Number	3,972	4,368	5,721	5,627	3,497
Amount of guarantees provided	CZK millions	8,819	8,950	11,044	13,838	9,483
Amount of guaranteed loans	CZK millions	12,598	12,791	17,263	20,814	14,254
Average amount of guarantee	%	70	70	64	66	67

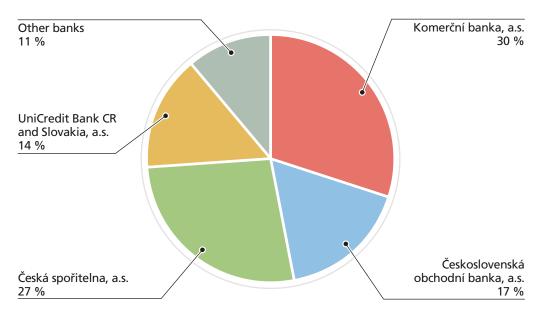
The guarantees were mostly used to support projects located in the South Moravian and Moravian-Silesian Regions (see Table 3).

REGION		2016	2017	2018	2019	2020
City of Prague	%	30.9	26.1	13.6	13.0	11.3
Central Bohemian Region	%	8.0	6.8	8.8	9.0	8.1
South Bohemian Region	%	4.4	5.1	5.5	6.7	4.7
Pilsen Region	%	4.6	4.3	4.1	3.5	5.3
Karlovy Vary Region	%	0.9	1.6	1.1	1.2	2.2
Ústí Region	%	2.5	3.3	3.2	3.6	5.7
Liberec Region	%	2.0	3.7	3.7	3.1	3.2
Hradec Králové Region	%	3.8	4.7	4.5	4.7	5.7
Pardubice Region	%	3.8	4.6	5.2	4.3	5.7
Vysočina Region	%	3.3	3.5	2.9	2.6	3.5
South Moravian Region	%	13.0	11.0	15.7	13.3	12.7
Olomouc Region	%	5.0	6.4	7.5	8.5	8.4
Zlín Region	%	5.4	4.9	5.8	7.5	6.7
Moravian-Silesian Region	%	12.4	14.0	18.5	19.0	16.8
Total	%	100.0	100.0	100.0	100.0	100.0

Table 3 Development of the regional structure of the amount of guarantees provided (in % of the contractual	
value of guarantees issued)	

A decisive part of the guarantee transactions in 2020 was carried out with Komerční banka, a.s., and Česká spořitelna, a.s.

# Chart 2 Structure of guarantee transactions in 2020 by lending banks



The largest volume of guarantees was provided for projects in business activities and further in industrial production (see Table 4).

#### Table 4 Sectoral structure of the guarantees provided (in % of the contractual value of guarantees issued in 2020)

Trade	48.0%
Industrial production	27.2%
Construction production	11.7%
Accommodation and catering	2.5%
Transport	2.8%
Other industrial production	1.2%
Healthcare	1.1%
Services	0.3%
Other business	5.2%
Total	100.0%

#### Loans (excluding COVID programmes)

In 2020, the Bank provided a total of 314 loans to the business sector in the total amount of CZK 1,699 million.

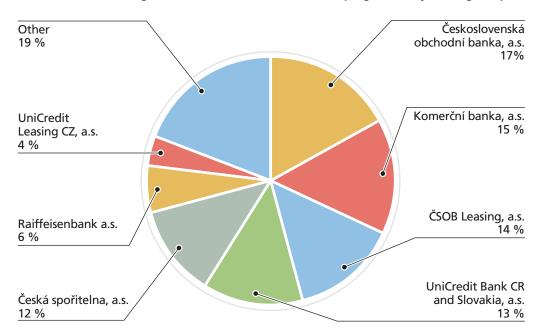
### Table 5 Preferential loans provided

INDICATOR		2016	2017	2018	2019	2020
Loans provided	Number	9	56	254	463	314
Amount of loans provided	CZK millions	7	357	1,440	2,407.1	1,699
Average amount of loan	CZK millions	0.8	6.4	5.8	5.2	5.4

In the EXPANSION programme (excluding COVID) – 282 loans in the total amount of CZK 1,540.4 million were concluded. Within this programme, the Bank mostly cooperated with Československá obchodní banka, a.s., and Komerční banka, a.s.

### Table 6 Regional structure of the amount of loans provided in 2020 (in %)

	Amount of credit
City of Prague	0.7%
South Bohemian Region	11%
South Moravian Region	17.4%
Karlovy Vary Region	1.7%
Hradec Králové Region	5.9%
Liberec Region	2.7%
Moravian-Silesian Region	8.2%
Olomouc Region	12%
Pardubice Region	5.9%
Pilsen Region	4.6%
Central Bohemian Region	10.5%
Ústí Region	3.7%
Vysočina Region	3.9%
Zlín Region	11.8%
Total sum	100.0%



### Chart 3 Structure of co-financing in 2020 in the EXPANSION-LOANS programme by lending companies

Within leasing companies, ČSOB Leasing, a.s., and UniCredit Leasing CZ, a.s., contributed the most to co-financing.

In other loan programmes (ENERG, ENERGY SAVINGS, SOUTHERN BOHEMIAN, INFIN, S-ENTERPRISE, both programmes for municipalities ), a total of 32 loans were provided with a total loan volume of CZK 158.8 million.

# Table 7 Sectoral structure of the amount of loans provided in 2020(in % of the contractual value of credits issued)

Industrial production	39.8%
Trade	17.1%
Transport	0.3%
Construction production	13.6%
Accommodation and catering	4.2%
Other industrial production	0.9%
Services	0.8%
Healthcare	2.3%
Other business	21.0%
Total	100.0%

### **COVID** programmes

## Table 8 Projects supported in COVID programmes in 2020

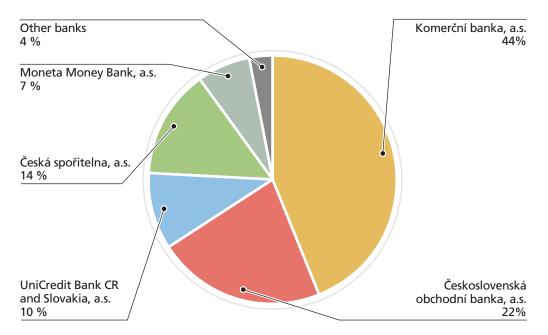
	Number	Amount (in CZK millions)	Guaranteed/ aided credits (in CZK millions)	Amount of guarantees (in CZK millions)
COVID I – Ioans	165	928	928	х
COVID II – guarantees	3,237	11,641	14,553	11,641
COVID III – bank loans	3,041	18,109	18,109	16,100
COVID PRAGUE – guarantees	311	1,299	1,624	1,299
Total COVID programmes	6,754	31,977	35,214	29,040

A total of 6,754 loans and guarantees in the total amount of CZK 35.2 billion were provided under the COVID programmes. The largest numbers of business entities under the COVID programmes were supported in the City of Prague, the South Bohemian Region and the Liberec Region.

# Table 9 Development of the regional structure of the amount of guarantees and loans provided in the COVID2020 programmes (in %)

	Trade volume
City of Prague	17.3%
Central Bohemian Region	6.0%
South Bohemian Region	16.6%
Pilsen Region	2.%
Karlovy Vary Region	4.7%
Ústí Region	3.2%
Liberec Region	10.0 %
Hradec Králové Region	5.5%
Pardubice Region	4.6%
Vysočina Region	5.3%
South Moravian Region	9.7%
Olomouc Region	3.8%
Zlín Region	5.3%
Moravian-Silesian Region	5.6%
Total	100.0%

## Chart 4 Structure of guarantee COVID programmes by lending banks in 2020 (in %)



Within the COVID programmes, the Bank mostly cooperated with Komerční banka and Československá obchodní banka.

Industrial production	33.8%
Trade	32.1%
Transport	4.4%
Construction production	10.4%
Accommodation and catering	4.6%
Other industrial production	0.8%
Services	1.1%
Healthcare	1.7%
Other business	11.1%
Total	100.0%

# 3. Support to reconstructing of apartment houses

In 2020, the Bank administered a total of 7,922 active contracts on providing grants to cover interest (from the original number of 10,122 concluded contracts). On the basis of these, the Bank paid out more than CZK 660 million. In total, CZK 11,618 million was paid to beneficiaries of grants in the period from the start of the programme of support of apartment house reconstruction until the end of 2020, which represents 85.0% of the total volume of concluded contracts on the providing grants to cover loan interests (CZK 13,664 million).

In 2020, the Bank also administered a portfolio of guarantees for bank loans, which enabled the owners or co-owners of apartment buildings to obtain loans for their repairs. At the end of 2020, the portfolio consisted of a total of 1,026 guarantees for a bank loan (of which 91 are portfolio guarantees) and the outstanding balance of the guaranteed loans principal amount reached CZK 1,805 million.

# 4. Financing of municipal infrastructure

Loans from the Regional Development Fund and the MUNICIPALITY 2 programme are designed for projects focused on transport and technical infrastructure, the construction of real estate for business and sports, and cultural and educational facilities and are provided only as an additional service to the overall portfolio of services. In 2020, the Bank did not provide any loans.

# 5. Trading on financial markets

In 2020, the Bank traded on the money, capital and foreign currency markets. The main purpose was liquidity management, bond portfolio management, interest rate and currency risk management, and the refinancing of credit programmes to support small and medium-sized enterprises and municipalities. The Bank used money market

instruments. In the area of portfolio management of bonds and money market instruments, the Bank continued to maintain a conservative investment strategy and focused on purchases of government bonds, government treasury bills and bonds of selected issuers with a high credit rating. The Bank was actively preparing to enter the Start market of the Prague Stock Exchange, with the aim of becoming one of the investors in the Czech stock market, with the objective of supporting the development of small and medium-sized enterprises in the form of capital inputs.

# 6. Other lending activities

As the financial manager of infrastructure programmes, the Bank secured their financing in 2020 in the total amount of CZK 785 million. These were funds from the State Fund for Transport Infrastructure and were intended for financing the construction of the Lovosice-Ústí nad Labem section of the D8 motorway.

In 2020, the Bank continued to administer interest payments on commercial loans for participants in the Water Supply and Sewerage Infrastructure Construction Project and paid CZK 2.3 million to 47 beneficiaries. Since the start of the financing of the interest rate subsidies administration programme in 2009, the total volume of disbursed interest rate subsidies as of 31 December 2020 reached CZK 228.7 million.

# 7. Central Europe Fund of Funds

In 2018, the fundraising of the Central Europe Fund of Funds (CEFoF) was concluded; the total amount of investors' commitments is EUR 97 million, including the ČMZRB investment of EUR 8.2 million. Besides the Bank and the EIF, investors include the Hungarian national development bank MFB, the Austrian AWS, the Slovenian SEF, the Slovak SIH and SZRB, and the International Investment Bank.

By 30 September 2020, 16.3% of investors' commitments paid to the CEFoF had been repaid. The commitments of

the CEFoF to seven selected funds (three of them with Czech management teams) amounted to EUR 59.3 million (of which EUR 19.3 million were funds managed by Czech teams). The EIF approved contributions to another fund of EUR 10 million. A total of 23 enterprises have already been supported by the CEFoF (nine of them in the Czech Republic).

# 8. Providing information according to Act No. 106/1999 Coll., on free access to information

a) Number of requests for information submitted and the number of decisions to reject the request

In 2020, 23 requests for the provision of information pursuant to Act No. 106/1999 Coll. were submitted and 13 decisions rejecting a request were issued (of which seven decisions rejected part of the request). Four decisions to reject a request were annulled (of which three were decisions to reject part of the request).

b) Number of appeals lodged against the decision

In 2020, seven appeals were filed (in five sets of proceedings).

c) A copy of the essential parts of each judgment of the court reviewing the legality of the obliged entity's decision to reject a request for information and an overview of all expenses incurred by the obliged entity in connection with legal proceedings on rights and obligations under this Act, including costs for its own staff and legal representation costs

In 2020, no court judgment was issued regarding the review of the legality of the decision of the obliged entity on the rejection of a request for information, nor were any court proceedings conducted with the obliged entity on rights and obligations pursuant to Act No. 106/1999 Coll.

- d) List of exclusive licences granted, including a justification for the need to grant an exclusive licence
- In 2020, no exclusive licences were granted.
- e) Number of complaints filed pursuant to Section 16a, the reasons for their filing and a brief description of the manner of their settlement

In 2020, one complaint was filed pursuant to Section 16a of Act No. 106/1999 Coll. The complainant lodged a complaint

against the (alleged) inaction of the obliged entity to properly address a request for the provision of information pursuant to Act No. 106/1999 Coll. The complainant claimed that on 5 May 2020 her request had been delivered to the data box of the obliged entity, and that according to Section 14(5)d) of Act No. 106/1999 Coll. the obliged entity had been obliged to provide the information no later than 15 days from the date of receipt of the request and that the statutory period had expired on 20 May 2020.

When determining the moment of delivery via a data box, it is necessary to assess whether the recipient is what is called a public authority or not. The moment of delivery of a data message with a document to a data box is considered to be the delivery of the document if it is a data box of what is called a public authority. The obliged entity is not such an authority and, therefore, documents are deemed delivered to it by the actual login of a person authorised to access its data box (possibly by the fiction of delivery, which did not occur). Therefore, the request was not delivered on 5 May 2020, but only a day later, i.e. 6 May 2020. It follows from the case law on time-counting rules as part of general legal principles that the time-counting rules known to official practice from Section 40 of the Administrative Procedure Code apply to the running of the time limit, although the Administrative Procedure Code does not directly apply to the provision of information. The time limit for providing information begins on the day following the day on which the fact determining the beginning of the time limit occurred, i.e. the receipt or supplementation of the request. The time limit shall be deemed fulfilled if the act of the obliged entity is handed over for delivery on the last day of the time limit.

As the time limit of 15 days specified in Section 14(5)d) of Act No. 106/1999 Coll. started to run a day later than the complainant thought, it did not end until 21 May 2020. On that day, the obliged entity also submitted the consignment with the reply to the complainant for postal transport, so the said deadline was maintained. The complaint was therefore rejected and the obliged entity's action upheld.

f) Further information related to the application of this Act

Of the 23 requests for information submitted in 2020 pursuant to Act No. 106/1999 Coll., 11 were submitted by a single applicant.

# Report of the Supervisory Board of Českomoravská záruční a rozvojová banka, a.s., for 2020

During 2020, the Supervisory Board performed the objectives assigned to it by law and the Articles of Association of Českomoravská záruční a rozvojová banka, a.s. (hereinafter the "Bank"). As the Company's supervisory body, it supervised the performance of the Bank's Board of Directors and the implementation of business activities, the Bank's management and the implementation of its strategy. The Supervisory Board was regularly informed by the Bank's Board of Directors about the Bank's activities, its financial situation and other significant matters.

After reviewing the Financial Statements as at 31 December 2020 and on the basis of the statement of an external auditor, the Supervisory Board states that the accounting records were kept in a demonstrable manner and in accordance with generally binding regulations governing bank accounting and in accordance with the Bank's Articles of Association. The accounting records show the financial position of the Bank from all important points of view and the Financial Statements prepared on the basis of these accounting records give a true and fair view of the accounting and financial situation of the Bank.

The Financial Statements were audited by KPMG Česká republika Audit, s.r.o., which confirmed that the Financial Statements gave a true and fair view of the financial position of Českomoravská záruční a rozvojová banka, a.s., as at 31 December 2020 and its operations for 2020 in accordance with the Czech accounting regulations. The Supervisory Board took note of the auditor's statement.

The Supervisory Board discussed the Financial Statements and the proposal for profit distribution for the fiscal year 2020. On the basis of the above and in accordance with the valid Articles of Association of Českomoravská záruční a rozvojová banka, a.s., the Supervisory Board, following the recommendation of the Audit Committee, proposes that the sole shareholder exercising the powers of the General Meeting of Českomoravská záruční a rozvojová banka, a.s., approve the Annual Financial Statements and the proposal for profit distribution for 2020 as proposed by the Bank's Board of Directors.

The Supervisory Board also discussed the Bank's Annual Report for 2020, stating that it recommends that the sole shareholder, in the exercise of the powers of the Bank's General Meeting, approve that Report.

In Prague, on 27 April 2021

On behalf of the Supervisory Board of Českomoravská záruční a rozvojová banka, a.s.:

Martin Hanzlík Deputy Chairman of the Supervisory Board

# Report of the Audit Committee of Českomoravská záruční a rozvojová banka, a.s., for 2020

In 2020, the Audit Committee of Českomoravská záruční a rozvojová banka, a.s., fulfilled its duties and performed the objectives assigned to it pursuant to Act No. 93/2009 Coll., on auditors, pursuant to Decree of the Czech National Bank No. 163/2014 Coll., on the performance of the activities of banks, savings and credit unions and securities dealers, and in accordance with the Articles of Association of Českomoravská záruční a rozvojová banka, a.s. (hereinafter "ČMZRB").

Within the scope of its competence, the Audit Committee dealt with the monitoring of the procedure for compiling the Financial Statements of ČMZRB and the process of their mandatory verification by the auditor – KPMG Česká republika Audit, s.r.o. It also dealt with the plan and strategy of the external audit. It assessed the independence of the audit firm KPMG Česká republika Audit, s.r.o., and the nature of the additional non-audit services provided by the external auditor, stating that on the basis of the documents that were submitted, the external auditor can be considered independent. The Audit Committee also discussed and took note of the report of the external auditor MiFID 2019. The cooperation with the external auditor was at a very good level in the past year.

In accordance with the Act on Auditors, the Audit Committee discussed and approved the provision of nonaudit services by KPMG Česká republika, s.r.o., namely:

- general training organised by the statutory auditor;
- preparation and filing corporate income tax returns for 2020, and providing tax advice on current tax issues;
- consulting services focused on GAP analysis of the performance of the ČMZRB credit risk management function.

In accordance with the Act on Auditors, the Audit Committee discussed and approved the provision of non-audit services by KPMG Česká republika Audit, s.r.o., namely:

verification of data on liabilities for the purposes of calculating the contribution to the Crisis Resolution Fund by the auditor.

The Audit Committee dealt with the result of the public contract entitled Audit Services for the period 2020-2022 and recommended to the Supervisory Board of ČMZRB

KPMG Česká republika Audit, s.r.o., as an external auditor for the period 2020-2022.

The object of the regular meetings of the Audit Committee was the evaluation of the effectiveness of the ČMZRB management and control system and the activities of the Independent Internal Audit Department, including its activity plans and individual audits performed. The Audit Committee stated that the systems set up in ČMZRB were functional and effective and that the measures taken as regards audit findings were being fulfilled. In 2020, it also dealt with the results of the external quality assessment of the ČMZRB internal audit.

In 2020, the Audit Committee assessed the audit report in the area of information technology and information on the current state and plans for IT at ČMZRB. It discussed and took note of the report to verify the set remuneration system and information on ensuring the integrity of the accounting and financial reporting system.

As part of the performance of the function of the Risk Committee, the Audit Committee assessed and took note of the risk management system in ČMZRB; a report on the valuation of assets, liabilities and off-balance sheet items when they are reflected in the offer to clients, including taking into account the business model and risk strategies, as well as information on the consideration of risks, capital, liquidity and probability and timing of expected profits in the overall remuneration system.

The Audit Committee prepared and submitted the Report on the Activities of the Audit Committee for 2019/2020 (period under review from 23 April 2019 to 28 April 2020) to the Public Audit Oversight Board.

It also participated actively in the Significance Survey for Statutory Audits, organised by the Public Audit Oversight Board.

The Chairman of the Audit Committee regularly informed the Supervisory Board about the results of the meetings of the Audit Committee.

In Prague, on 23 March 2021

On behalf of the Audit Committee of Českomoravská záruční a rozvojová banka, a.s.:

Milan Novák Chairman of the Audit Committee

# Affidavit

Českomoravská záruční a rozvojová banka, a.s., declares that all the information and data provided in this Annual Report are true and complete. It further confirms that this document contains all the facts that may be important for investors' decisions.

Českomoravská záruční a rozvojová banka, a.s., further declares that, up till the date of preparation of the Annual Report, there were no negative changes in the financial situation or other changes that could affect the accurate and correct assessment of the financial situation of Českomoravská záruční a rozvojová banka, a.s.

In Prague, on 27 April 2021

On behalf of the Board of Directors signed by:

**Jiří Jirásek** Chairman of the Board of Directors

fiah 1/m

Pavel Fiala Member of the Board of Directors

UNCONSOLIDATED FINANCIAL STATEMENTS ACCORDING TO CZECH ACCOUNTING REGULATIONS AS AT 31 DECEMBER 2020



# Balance Sheet as at 31 December 2020

CZK	C millions Not	es	31. 12. 2020	31. 12. 2019
1	Cash on hand and deposits with central banks	3	6	21
2	Government zero-coupon bonds and other securities accepted by the central bank for refinancing, issued by government institutions	4	18,168	15,499
3	Receivables from banks	5	3,205	1,133
	of which: a) payable on demand		3	7
	b) other receivables		3,202	1,126
4	Receivables from clients	6	6,969	5,441
	b) other receivables		6,969	5,441
5	Debt securities	7	1,294	1,620
	of which: (a) issued by government institutions		443	608
	(b) issued by other persons		851	1,012
6	Shares, share certificates and other interests	8	35	34
7	Participating interests with significant influence	8	1	1
8	Participating interests with decisive influence	8	4	4
9	Intangible fixed assets	9	48	21
10	Tangible fixed assets	9	126	141
	of which: land and buildings for operating activities		126	141
11	Other assets	10	135	33
13	Deferred costs and accrued income	10	66	35
Tota	l assets		30,057	23,983

# Balance Sheet as at 31 December 2020 (continued)

CZK	C millions Note:	31. 12. 2020	31. 12. 2019
1	Payables to banks – other term liabilities 12	942	1,410
2	Payables to clients	20,706	13,736
	including: (a) payable on demand	600	345
	(b) other payables	20,106	13,391
4	Other liabilities 14	86	141
5	Deferred revenues and expenses 14	136	184
6	Other provisions 1	3,311	3,583
	Total debt	25,181	19,054
8	Registered capital 1	2,632	2,632
	of which: (a) paid-up registered capital	2,632	2,632
10	Reserve funds and other funds from profit	1,350	1,350
	including: (a) mandatory reserve funds and hedge funds	1,150	1,150
	(c) other funds from profit	200	200
13	Valuation differences from assets and liabilities 1	51	116
14	Retained earnings from previous periods	819	793
15	Profit for the fiscal period 1	24	38
	Total equity	4,876	4,929
Tota	al liabilities	30,057	23,983

# Off-balance sheet items as at 31 December 2020

CZK	C millions Not	es	31. 12. 2020	31. 12. 2019	
	Off-balance sheet assets:				
1	Commitments and guarantees provided	16	44,771	25,254	
3	Receivables from spot operations		49	0	
4	Receivables from fixed-term operations	24c	549	858	
6	Written-off receivables		174	176	
	Total off-balance sheet assets		45,543	26,288	
	Off-balance sheet liabilities:				
9	Commitments and guarantees received	16	7,405	1,691	
10	Pledges and collateral received	16	6,075	4,459	
11	Liabilities from spot operations		49	0	
12	Liabilities from fixed-term operations	24c	542	870	
14	Values taken into escrow, administration and storage		559	558	
	Total off-balance sheet liabilities		14,581	7,578	

# **Profit and Loss Account for 2020**

CZK	millions	Notes	2020	2019
1	Interest income and similar revenues	17	411	669
	of which: interest on debt securities		277	365
2	Interest expenses and similar costs	17	-109	-283
3	Revenues from shares and interests	8	0	9
4	Revenues from fees and commissions	18	357	294
5	Fee and commission costs		-2	-2
6	Profit or loss from financial operations	19	17	-8
7	Other operating revenues		8	4
8	Other operating costs	20	-18	-21
9	Administrative costs	21	-388	-326
	including: (a) staff costs		-286	-248
	of which: (aa) wages and salaries		-204	-178
	(ab) social security and health insurance		-69	-60
	(b) other administrative costs		-102	-78
11	Depreciation of tangible and intangible fixed assets		-28	-24
12	Release of adjustments and provisions for receivables, securities and guarantees, revenues from previously written-off receivables	11	1	1
13	Depreciation, creation and use of adjustments and provisions for receivables, securities and guarantees	11	-228	-208
16	Release of other provisions	11	3	6
17	Creation and use of other provisions		0	-6
19	Profit or loss for the fiscal period before tax		24	105
23	Income tax	22	0	-67
24	Profit or loss for the fiscal period after tax	15	24	38

# Statement of Changes in Equity for the year ended 31 December 2020

	Registered	Reserve funds and hedge	Social and other funds	Valuation differen-	Retained	Total
CZK millions	capital	funds	from profit	ces	earnings	equity
As at 1 January 2019	2,632	1,150	200	77	802	4,861
Profit in 2019	0	0	0	0	38	38
Movements in valuation differences	0	0	0	39	0	39
Allocation to the social fund	0	0	9	0	-9	0
Drawing on the social fund	0	0	-9	0	0	-9
As at 31 December 2019	2,632	1,150	200	116	831	4,929
Profit in 2020	0	0	0	0	24	24
Movements in valuation differences	0	0	0	-65	0	-65
Allocation to the social fund	0	0	12	0	-12	0
Drawing on the social fund	0	0	-12	0	0	-12
As at 31 December 2020	2,632	1,150	200	51	843	4,876

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS ACCORDING TO CZECH ACCOUNTING REGULATIONS AS AT 31 DECEMBER 2020



# 1. General information

Českomoravská záruční a rozvojová banka, a.s. (hereinafter the "Bank" or "ČMZRB") was established pursuant to the Commercial Code as a joint-stock company and was registered in the Commercial Register at the District Court of Prague 1 on 28 January 1992 (Section B, Insert 1329). The Bank's registered office is at Jeruzalémská 964/4, Prague 1. The Bank has five branches in the Czech Republic: in Prague, Brno, Ostrava, Hradec Králové and Pilsen, and one regional office in České Budějovice.

The Bank was issued with a banking licence by the Czech National Bank (hereinafter the "CNB") to perform the activities specified in Section 1(1)a) and b) of the Act on Banks and to perform the activities specified in Section 1(3) of the Act on Banks.

Banking activities are focused on supporting small and medium-sized enterprises in the Czech Republic through guarantee and loan products, in supporting repairs of housing units in apartment buildings, in providing loans to municipalities, especially from sources from international financial institutions, and in the activities of a finance manager for project financing in the field of infrastructure.

Českomoravská záruční a rozvojová banka, a.s., based on Government Resolution No. 574/2017 of 21 August 2017, fulfils the role of a national development bank. This presupposes, among other things, the key role of the Bank in the implementation of financial instruments in the Czech Republic, most of which are financed from European funds. Following the adoption of European Commission Regulation No. 2018/1046 (known as the Omnibus) in August 2018, the managing authorities of individual operational programmes can cooperate with national promotional banks as administrators of financial instruments directly, without the need to announce tenders.

#### The Bank's activities consist mainly of:

- Accepting deposits;
- Providing loans;
- Investing in securities on its own account;
- Payment and settlement;
- Providing bank and financial guarantees;
- Provision of banking information;
- Trading on financial markets on its own account;

Activities that are directly related to the activities specified in the Bank's banking licence.

# Use of the Bank's own resources to finance SME support in 2020

The Bank used part of its own resources to cover the credit risk of guarantees for the small and medium-sized enterprise (SME) sector under the national guarantee programme. This measure helped maintain continuity in SME aid in 2020. The Bank does not have a branch abroad and does not hold its own shares. The Bank has long supported activities related to the financing of the science, research and innovation sectors. It is also involved in the Innovation Strategy of the Czech Republic for 2019-2030.

However, the Bank itself does not carry out any research or other activities in this area. The Bank has long supported environmental protection and is actively involved in landscape maintenance and tree planting. It regularly organises company-wide and development events for employees.

# Impacts of the COVID-19 pandemic on the Bank's activities in 2020

On 11 March 2020, the World Health Organization declared the spread of coronavirus infection a pandemic, and on 12 March 2020, the Czech Government declared a state of emergency. In response to the potentially serious threat that the disease called COVID-19 poses to public health, the state administration authorities of the Czech Republic have taken measures to stop the spread of the pandemic.

The broader economic impacts of these events include, in particular, the disruption of business and economic activity in the Czech Republic, with a consequent impact on lower and higher levels of the supply chain, and significant disruption of business activity in specific sectors both within the Czech Republic and in markets heavily dependent on the foreign supply chain, as well as export-oriented enterprises dependent on foreign markets. The sectors that are affected include, in particular, trade and transport, travel and tourism, the entertainment industry, manufacturing, construction, retail, insurance, education and the financial sector.

Subsequently, the Government of the Czech Republic adopted measures in the area of assistance for self-employed persons and small and medium-sized entrepreneurs whose economic activity is limited as a result of the spread of coronavirus infection. The Bank has become an important supporting financial institution as regards these measures.

In line with its operational risk management procedures and business continuity plans, the Bank has implemented a number of measures to ensure day-to-day operations so that it can fully and adequately fulfil its role in the relevant support programmes announced by the Government. Measures include hygiene rules, rules for working from home, rules for social contact, including contact with clients, the provision of backup workplaces and other measures.

The Bank accepted applications for preferential working capital loans in the COVID I programme. The aim of the programme was to provide working capital financing to self-employed persons and small and medium-sized entrepreneurs whose economic activities were limited as a result of the occurrence of coronavirus infection and the related preventive measures of the Czech Government. The loans were provided as interestfree with a grace period. The programme was financed from the MIT and from the structural funds under the OP EIC.

The Bank accepted applications for preferential guarantees with a financial contribution – interest rate subsidies in the COVID II programme, which was created by modifying the existing Expansion-Guarantees and COVID Prague programmes. The aim of the programme was to facilitate the access of self-employed persons and small and medium-sized entrepreneurs to financing their business projects in order to overcome the economic crisis situation caused by the spread of coronavirus infection.

The programmes were financed from the EU structural funds within the OP EIC and from the OP PGP resources.

In cooperation with the MIT, the Bank prepared the COVID III guarantee programme with the aim of supporting the provision of additional working capital financing to clients affected by the coronavirus pandemic. The programme is funded by the Czech Republic.

During 2020, the Bank continuously monitored and evaluated the impact of the COVID-19 pandemic on its risk profile, including the impact on its models of creating adjustments and provisions in accordance with IFRS 9, with an emphasis on the precautionary principle. Further details, especially in the area of asset reclassification and FLI "management adjustment", are provided in Chapter 24.

In the area of previously concluded credit transactions, the Bank is fully prepared to assess and make possible adjustments to repayment schedules in accordance with the current situation of individual clients.

As a result of the long-term high ratio between highly liquid assets and expected liquidity outflows, the Bank does not expect a significant impact of the current situation on its liquidity position. Highly liquid assets (mainly government bonds of the Czech Republic) held by the Bank in the long term are resistant to the current unstable situation on the markets. The Bank does not find any increased risks on the liabilities side and thus possible outflows, either. Deposits consist mainly of long-term programme funds of the state. The Bank does not accept deposits or maintain current accounts for the public, and therefore no increase in liquidity outflows can be expected.

At the moment, the Bank fully meets the capital requirements set by the regulator and will regularly update its capital ratio calculation models with respect to current assumptions and the outlook. In the event that the need for capital strengthening in connection with the increase in business activity is indicated within the capital ratio modelling, the Bank's management is prepared to initiate negotiations in terms of possible capital strengthening by the shareholder, i.e. the Czech Republic.

The Bank's management considered the potential impacts of COVID-19 on its activities and business and concluded that they did not have a significant effect on the going concern

assumption. Because of this, the Financial Statements as at 31 December 2020 were prepared on the basis of the assumption that the Bank will be able to continue its activities.

The Bank's management cannot rule out the possibility that the extension or tightening of restrictive measures in connection with the fight against the coronavirus pandemic in the Czech Republic will have an adverse effect on the Bank and its financial condition and operating results, both in the medium and long term. The Bank's management will continue to monitor developments closely and subsequently respond to them in order to mitigate the consequences of any events and circumstances.

As at 31 March 2020, the term of office of the member of the Board of Directors Mr. Ivan Duda ended. From 1 April 2020, Mr. Pavel Fiala became a new member of the Board of Directors of the Bank.

As at 30 April 2020, Mr. Ivo Škrabal resigned as a member of the Board of Directors. From 1 September 2020, Mr. Pavel Křivonožka became a member of the Bank's Board of Directors.

# 2. Accounting policies

### a) Basic principles of accounting

The Financial Statements for the 2020 fiscal period are prepared on the basis of the Bank's accounting kept in accordance with Act No. 563/1991 Coll., on accounting, and relevant regulations, measures and decrees, in particular Decree No. 501/2002 Coll., issued by the Ministry of Finance of the Czech Republic as amended (hereinafter the "Decree"), which implements certain provisions of Act No. 563/1991 Coll., on accounting, as amended, for accounting entities that are banks and other financial institutions, as amended, and in accordance with the Czech Accounting Standards for financial institutions.

In accordance with this Decree, the arrangement and designation of items in the Financial Statements and the content definition of the items in these Financial Statements are determined. At the same time, this Decree stipulates in Section 4a(1) that the Bank should follow the International Accounting Standards as amended by the directly applicable European Union regulations on the application of the International Accounting Standards (hereinafter the "International Accounting Standard" or "IFRS") for the purpose of reporting and valuing financial instruments and disclosing information on them in the Notes to the Financial Statements.

The Financial Statements are based on the principle of the accrual of costs and revenues, with transactions and other events being recognised at the time of their occurrence and accounted for in the period to which they relate. The Financial Statements have been prepared under the historical cost convention as modified by the revaluation of financial

instruments at fair value through profit or loss and at fair value through equity.

In order to prepare Financial Statements in accordance with the Czech accounting regulations, it is necessary for the Bank's management to make estimates that affect the amounts of assets and liabilities reported at the balance sheet date, disclosures about contingent assets and liabilities, and costs and revenues reported for the period. These estimates, which relate in particular to the determination of the fair value of financial instruments, the valuation of intangible assets, the impairment of assets and the creation of provisions, are based on information available at the date of the Financial Statements. The main areas where there may be significant differences between the actual result and the estimate include, in particular, credit adjustments, provisions for guarantees and credit commitments and the fair value of securities. Information about key forward-looking assumptions and other key sources of estimation uncertainty at the date of the Financial Statements that are likely to cause significant adjustments to the carrying amounts of assets and liabilities within the next fiscal period is disclosed in the individual sections of the Financial Statements.

The fair values of listed investments in active markets are based on current ask prices (financial assets) or bid prices (financial liabilities). In the absence of an active market for a financial instrument, the Bank determines fair value using valuation methods. Valuation methods reflect current market conditions at the valuation date, which may not correspond to market conditions before or after the valuation date. At the date of the Financial Statements, the Bank's management assessed the methods used to ensure that they adequately reflected current market conditions, including relative market liquidity and credit spread.

Financial assets and liabilities denominated in foreign currencies are converted into Czech crowns at the exchange rate published by the CNB as at the balance sheet date. All foreign exchange gains and losses on monetary items are recognised in profit or loss from financial operations.

#### b) Moment of execution of a business transaction

The moment of execution of a business transaction is the day of settlement of spot trades in the case of the spot purchase and sale of financial assets. Spot operations are monitored on off-balance sheet accounts from the moment the trade is agreed to the moment the trade is settled.

The following rules apply to the derecognition of financial assets and liabilities:

The Bank derecognises a financial asset or a part of it from the Balance Sheet if it loses control over the contractual rights to that financial asset or that part. The Bank loses control if it exercises the rights to the benefits defined in a contract, these rights expire or it waives these rights. The financial liability or part thereof expires, i.e. the obligation defined in the contract is fulfilled, cancelled or expires and the Bank no longer recognises that financial liability or part thereof in the Balance Sheet. The difference between the value of the liability in accounting, i.e. part of the liability that expires or has been transferred to another entity, and the amount paid for that liability is recognised in costs or revenues.

#### c) Financial assets and financial liabilities

#### i) Recognition and initial valuation

The Bank initially recognises selected financial assets and financial liabilities (e.g. receivables from clients, payables to clients, etc.) at the time when they arise. All other financial instruments (including spot purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the relevant financial instrument.

A financial asset or financial liability is initially measured at fair value, adjusted for transaction costs. Transaction costs are costs that are directly attributable to the acquisition or issue.

### (ii) Classification

### **Financial Assets**

On initial recognition, a financial asset is classified as measured at:

- amortised cost (AC),
- fair value through equity (FVOCI),
- fair value through profit or loss (FVTPL).

A financial asset is measured at amortised cost (AC) if it meets both of the following conditions and is not designated as measured at fair value through profit or loss (FVTPL):

- the asset is held within a business model that aims to hold financial assets to obtain contractual cash flows,
- the contractual terms of the financial asset specify the dates of cash flows consisting exclusively of principal repayments and payments of interest on the principal amount outstanding (what is called the "SPPI test").

A debt instrument is measured at fair value through equity (FVOCI) only if it meets both of the following conditions and is not designated as measured at fair value through profit or loss:

- the asset is held within a business model of which the objective is achieved both by the collection of contractual cash flows and by the sale of financial assets,
- the contractual terms of the financial asset specify the dates of cash flows consisting exclusively of principal repayments and payments of interest on the principal amount outstanding (what is called the "SPPI test").

On the initial recognition of equity securities not held for trading, the Bank irrevocably determined that it would

recognise subsequent changes in fair value through equity (FVOCI). For more details see clause 2g (Shares, share certificates and other interests). This choice was made and applied at the level of the investment in question.

All other financial assets are measured at fair value through profit or loss (FVTPL).

On initial recognition, the Bank classifies a financial asset that otherwise meets the requirements for being measured at AC or FVOCI as being measured at FVTPL if this eliminates or significantly reduces a valuation or accounting mismatch that would otherwise arise; see clause 2c(vii) below.

#### Evaluation of the business model

The business model in the Bank reflects the way in which groups of financial assets are jointly managed in order to achieve a certain business goal. Therefore, this condition does not represent an approach to the classification by instruments individually but is set at a higher level of aggregation. The Bank takes into account all relevant information and evidence available at the assessment date. This relevant information and evidence includes, but is not limited to, the following:

- established methods and objectives for the portfolio and the approach to these methods in practice, i.e., in particular, whether the accounting entity's strategy focuses on contractual interest revenues, maintaining the interest rate profile, matching the duration of financial assets to the duration of liabilities that serve as a source of funding for those financial assets or realising cash flows by selling assets;
- evaluating the performance of the business model and financial assets held within each business model, including how to present it to key management personnel of the accounting entity;
- risks that affect the performance of business models and financial assets held within selected business models and, in particular, the way in which those risks are managed;
- the method of remuneration of the Bank's managers and executives;
- the frequency, volume and timing of sales in previous periods, the reasons for the sales and their expectations in the future. Sales information is not evaluated in isolation but as part of an overall assessment of how the accounting entity's objectives for managing financial assets are achieved and how cash flows are realised.

Financial assets that are held for trading and whose performance is measured on the basis of fair value are measured at FVTPL because the financial assets are not held to obtain contractual cash flows or held to achieve the objective of collecting contractual cash flows or sales of financial assets.

# Evaluation of whether cash flows are formed exclusively by (re)payments of principal and interest (what is called the "SPPI test")

For the purposes of this evaluation, "principal" is defined as the fair value of a financial asset on initial recognition.

"Interest" is defined as the remuneration for the time value of money and for the credit risk associated with the principal amount outstanding for a specific period of time and for other basic risks and costs associated with lending (e.g. liquidity risk and administrative costs), as well as any profit margin.

In assessing whether cash flows consist exclusively of principal and interest payments, the Bank evaluates the contractual terms of the instrument. This includes evaluating whether a financial asset includes contractual arrangements that may change the timing and amount of the contractual cash flows.

As part of the evaluation, it evaluates:

- contingent events that may change the timing and amount of contractual cash flows;
- leverage;
- early repayment and extension of maturity;
- conditions that restrict an accounting entity from collecting cash flows from specific assets;
- conditions that modify the payment for the time value of money (e.g. the methods used for the regular determination of the interest rate).

## Reclassification

Subsequent to initial recognition, financial assets are not reclassified unless the Bank changes its business model for managing financial assets in the current fiscal period.

## **Financial liabilities**

The Bank classifies its financial liabilities, other than financial guarantees and commitments, as valued at:

- amortised cost (AC), or
- fair value through profit or loss (FVTPL).

## (iii) Derecognition

## **Financial Assets**

The Bank derecognises a financial asset if

the contractual rights to the cash flows from the financial asset expire – see clause 2c(iv) below – or

it transfers the rights to receive cash flows in a transaction in which substantially all the risks and rewards of ownership of a financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset and does not retain control of the financial asset. When derecognising a financial asset, the difference between

the book value of the asset (or part of the book value allocated to the portion of the derecognised asset) and

the sum of the consideration received (including any acquired asset less the value of any new liability) and the cumulative gain or loss that was recognised in equity shall be reported in the Profit and Loss Account.

The cumulative gain or loss recognised in equity in connection with equity securities that are designated as measured at fair value through equity (FVOCI) is not recognised in the Profit and Loss Account when derecognised. See clause 2f below.

The Bank enters into transactions in which it transfers the assets recognised in the Balance Sheet but retains either all or substantially all the risks and rewards of the transferred financial assets or parts thereof. In such cases, the transferred assets are not derecognised. See clause 2j (Sale and repurchase operations).

In transactions in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset but retains control of the financial asset, the Bank continues to recognise the asset to the extent that it is exposed to changes in the value of the transferred asset.

## **Financial liabilities**

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

## (iv) Modification of financial assets and financial liabilities

#### **Financial Assets**

If the terms of a financial asset are modified, then the Bank assesses whether the cash flows of the modified financial asset are significantly different.

If the cash flows are significantly different, then the contractual right to the cash flows from the original financial asset is deemed to have expired. In such a case, the original financial asset is derecognised – see clause 2c(iii) above – and the new financial asset is recognised and reported at fair value.

Cash flows are not significantly different from a modified asset measured at amortised cost, so the modification does not derecognise the financial asset. The Bank recalculates the gross book value of a financial asset and recognises the amount arising from the adjustment to the gross book value as a gain or loss on the modification in the Profit and Loss Account. If such a modification is made because of the debtor's financial difficulties – see clause 2c(vi) below – then the gain or loss is recognised together with the creation, release or use of adjustments in the Profit and Loss Account. In other cases, the gain or loss is recognised together with interest income in the Profit and Loss Account.

# **Financial liabilities**

The Bank derecognises a financial liability when the terms of the financial liability are modified and the cash flows of the modified liability are significantly different. In that case, the new financial liability is recognised at fair value on the basis of the modified terms. The difference between the book value of a defunct financial liability and a new financial liability with modified terms is recognised in the Profit and Loss Account.

## (v) Valuation at fair value

"Fair value" is the price that would be received from the sale of an asset or paid for the assumption of a liability in an orderly transaction between market participants at the measurement date in the principal (or most advantageous) market to which the Bank has access at that date. The fair value of a liability reflects the risk of default.

The Bank measures the fair value of an instrument using the price listed in an active market for that instrument, if available. An active market is a market in which transactions for assets or liabilities are carried out with sufficient frequency and volume to ensure a regular supply of price information.

If the price listed in an active market is not available, then the Bank will use valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The selected valuation technique includes all of the factors that market participants would include in the valuation of the transaction in guestion.

The best evidence of the fair value of a financial instrument at initial recognition is usually the transaction price (i.e. the fair value of the consideration given or received).

If an asset or liability that is measured at fair value has a bid price and ask price, then the Bank measures

- assets and long positions at bid price
- liabilities and short positions at ask price.

Portfolios of financial assets and financial liabilities that are exposed to market and credit risk that are managed by the accounting entity on the basis of its net exposure to either market risk or credit risk are valued at the price that would be obtained by selling the net long position (or paying for the transfer of a net short position) for a specific risk exposure. Adjustments determined at the portfolio level (e.g. adjustments to bid and ask prices or adjustments to the credit risk that take into account valuation based on a net position) are allocated to individual assets and liabilities on the basis of the relevant risk adjustment of an individual instrument in the portfolio.

The fair value of a financial liability that includes a demand repayment element (e.g. a deposit repayable on demand) is not less than the amount repayable on demand, discounted from the first day that repayment can be required.

#### Hierarchy of fair value

The Bank determines fair values using the following fair value hierarchy, which reflects the significance of the inputs used for valuation.

Level 1: Level 1 inputs are (unadjusted) prices listed in active markets for identical assets or liabilities to which the Bank has access at the measurement date.

Level 2: Level 2 inputs are inputs other than listed prices included within Level 1 that are observable directly (i.e. as prices) or indirectly (i.e. as derived from prices) for an asset or liability. This level includes instruments valued using:

- listed prices for similar instruments in active markets;
- listed prices for identical or similar instruments in markets that are considered less than active;
- or other valuation methods in which all significant inputs are directly or indirectly observable from market data.

Level 3: Level 3 inputs are unobservable inputs. This level includes all instruments for which valuation methods include inputs that are not observable, and the unobservable inputs have a significant impact on the valuation of the instrument. This level includes instruments that are valued on the basis of listed prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between instruments.

## (vi) Impairment

The Bank recognises adjustments and provisions for expected credit losses (ECL) for the following financial instruments that are not measured at fair value through profit or loss (FVTPL):

- financial assets that are debt instruments;
- credit commitments issued;
- financial guarantees provided.

Equity financial instruments are not recognised for impairment.

The Bank establishes adjustments equal to lifetime ECL, with the exception of the following financial instruments, the adjustments of which are determined as 12-month ECL:

- debt securities for which a low credit risk is determined at the balance sheet date;
- other financial instruments (other than lease receivables) for which the credit risk has not increased significantly since their initial recognition.

The Bank assumes a low credit risk for debt securities if their respective credit risk rating is in accordance with the generally understood definition of "Low credit risk".

The 12-month ECL are part of the expected credit losses that may arise as a result of the expected default of a financial instrument that may occur within 12 months of the balance sheet date.

## Determination of expected credit losses (ECL)

ECL represent a probability-weighted estimate of expected credit losses and are determined as follows:

- financial assets that are not credit-impaired: as the present value of all cash deficits (i.e. the difference between the contractual cash flows in favour of the Bank and the cash flows expected by the Bank);
- financial assets that are credit-impaired: as the difference between the gross book value of the financial asset and the present value of estimated future cash flows;
- undrawn credit commitments: as the present value of the difference between the contractual cash flows to the accounting entity if the credit commitment is drawn and the cash flows the Bank expects to receive;
- financial guarantees: as the difference between the expected payments required to satisfy the holder of the financial guarantee and the payments that the Bank expects to receive.

Further information is provided in clause 24a).

## **Restructured financial assets**

If the contractual terms of a financial asset are modified or an existing financial asset is replaced with a new one as a result of the financial difficulties of the debtor, the Bank assesses whether the financial asset should be derecognised and the expected credit losses (ECL) are determined as follows:

- If the expected restructuring does not result in the derecognition of the existing asset, then the expected cash flows from the modified financial asset are included in the calculation of cash deficits from the existing asset.
- If the expected restructuring results in the derecognition of an existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing asset at the time of derecognition. This value is included in the calculation of cash deficits on an existing asset that are discounted from the expected date of derecognition at the balance sheet date using the original effective interest rate of the existing financial asset.

#### **Credit-impaired financial assets**

At each balance sheet date, the Bank assesses whether financial assets measured at amortised cost and debt financial assets measured at fair value through equity (FVOCI) are not credit-impaired. A financial asset is credit-impaired if one or more events have occurred that have an adverse effect on the estimated future cash flows of that financial asset.

Evidence that a financial asset has been credit-impaired includes the following observations:

- significant financial problems of the debtor or issuer;
- significant delay in fulfilling the contractual non-payment terms

- breach of contract, such as default by the debtor or failure to pay;
- credit restructuring carried out by the Bank which the Bank would not otherwise have considered;
- if it becomes probable that the debtor will enter bankruptcy, insolvency or some other reorganisation; or
- the disappearance of an active market for the securities in question as a result of financial difficulties.

A credit whose contractual terms have been adjusted as a result of a deterioration in the debtor's solvency is usually considered to be credit-impaired if there is no evidence that the risk of non-receipt of contractual cash flows has been significantly reduced and there are no other indicators of impairment. In addition, retail credits that are 90 days or more overdue are considered credit-impaired.

When assessing the credit impairment of bonds, the Bank considers the following:

- how the market assessment of the issuer's creditworthiness is reflected in the yield of the bond;
- creditworthiness assessment by rating agencies;
- the issuer's access to the capital markets for the purpose of issuing new bonds;
- the likelihood of restructuring of the issuer resulting in a loss for the Bank as a result of voluntary or compulsory debt forgiveness.

# Presentation of adjustments for ECL in the Balance Sheet

Adjustments for ECL are presented as follows:

- financial assets measured at amortised cost: the adjustment is deducted from the gross book value of the assets;
- credit commitments and financial guarantees: as a provision with the exception mentioned in the clause below;
- if a financial instrument includes both an exhausted (financial asset) and an undrawn portion (credit commitment) and the Bank cannot separately distinguish between the expected credit losses from a credit commitment and losses from a financial asset, then the Bank recognises expected credit losses from the credit commitment together with the adjustment for the financial asset. These expected credit losses are recognised as a provision only to the extent that the combined expected credit losses exceed the gross book value of the financial asset.
- Debt instruments measured at fair value through equity (FVOCI): the adjustment is not recognised in assets in the Balance Sheet, as these instruments are recognised in assets at their fair value.

However, the adjustment is reported under Valuation differences in equity and its amount is stated in the Notes to the Financial Statements.

Adjustments and provisions for ECL created against costs are reported in the Profit and Loss Account in the item "Depreciation, creation and use of adjustments and provisions for receivables and guarantees". This item also recognises any subsequent use of adjustments.

The release of adjustments and provisions for ECL as a result of their redundancy is reported in the Profit and Loss Account in the item "Release of adjustments and provisions for receivables and guarantees, revenues from previously written off receivables".

## Tax adjustments

The tax-deductible part of the total adjustments for credit losses for the fiscal period is calculated in accordance with Section 5 ("Bank provisions and adjustments") and Section 8 ("Adjustments for receivables from debtors") of Act No. 593/1992 Coll., on provisions for determining the income tax base, as amended. Adjustments are kept in the analytical records for the purpose of calculating the tax liability.

## Depreciation

Credits and debt securities are depreciated (either in part or in full) unless there is a realistic and achievable possibility of recovery proceeds. This generally occurs when the Bank finds that a debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amount due that is being depreciated. However, depreciated financial assets may still be subject to recovery in order to comply with the Bank's recovery procedures.

Depreciation of receivables is included in the item "Depreciation, creation and use of adjustments and provisions for receivables and guarantees" in the Profit and Loss Account. In the case of a write-off of a receivable for which an adjustment has been created in full, the adjustments in the same item of the Profit and Loss Account are reduced by the same amount. Revenues from previously written-off credits are shown in the Profit and Loss Account under the item

"Release of adjustments and provisions for receivables and guarantees, revenues from previously written-off receivables".

# (vii) Classification of a financial instrument in the category measured at fair value through profit or loss (FVTPL)

## **Financial assets**

Upon initial recognition, the Bank may classify certain financial assets in the FVTPL valuation category because this designation/classification eliminates or significantly reduces an accounting mismatch that would otherwise occur.

## **Financial liabilities**

The Bank may classify certain financial liabilities in the FVTPL valuation category for the following reasons:

- the liabilities are managed, assessed and internally reported on a fair value basis;
- this classification eliminates or significantly reduces an accounting mismatch that would otherwise occur.

## d) Receivables from banks

The Balance Sheet item Receivables from banks as follows:

credits and loans measured at amortised cost – see clause 2c(ii) above – which are initially recognised at fair value plus additional direct transaction costs and subsequently measured at amortised cost using the effective interest rate;

Accrued interest is part of the account groups in which the assets are recognised, and is reported together with the relevant asset.

## d) Receivables from clients

The Balance Sheet item Receivables from clients includes the following:

- credits and loans measured at amortised cost see clause 2c(ii) above – which are initially recognised at fair value plus additional direct transaction costs and subsequently measured at amortised cost using the effective interest rate;
- credits and loans that are mandatorily measured at fair value through profit or loss (FVTPL) or included in FVTPL – see clauses 2c(ii) and 2c(vii) above – that are measured at fair value, any change in which is immediately recognised in profit or loss;

Accrued interest is part of the account groups in which the assets are recognised, and is reported together with the relevant asset.

If the Bank purchases a financial asset and at the same time enters into a contract to sell the financial asset that was purchased (or a significantly similar asset) at a fixed price in the future (reverse repo operations or lending securities), then the transaction is reported as a credit or loan and the underlying asset is not reported in the Bank's Balance Sheet. See clause 2j below (Sale and repurchase operations).

#### f) Securities Debt securities

Debt securities reported in the Balance Sheet items "Government zero-coupon bonds and other securities accepted by the central bank for refinancing" and "Debt securities" include the following valuation categories:

 debt securities measured at amortised cost – see clause 2c(ii) above – which are initially recognised at fair value plus additional direct transaction costs and subsequently measured at amortised cost using the effective interest rate;

- debt securities measured at fair value through equity (FVOCI);
- debt securities that are mandatorily measured at fair value through profit or loss (FVTPL) or included in FVTPL – see clauses 2c(ii) and 2c(vii) above – that are measured at fair value, any change in which is immediately recognised in profit or loss

For debt securities valued at FVOCI, gains or losses are recognised in the item Valuation differences in equity, except for the following, which are recognised in the Profit and Loss Account in the same way as financial assets measured at amortised cost:

- interest income using the effective interest rate;
- creation of an adjustment for expected credit losses (ECL) and its release or use;
- foreign exchange gains and losses.

If a debt security valued at FVOCI is derecognised, then the cumulative gain or loss recognised up to that point in the item Valuation differences in equity is reclassified from equity and recognised in the Profit and Loss Account.

Gains/losses that are recognised in the Profit and Loss Account are reported under the item "Profit or loss from financial operations".

#### **Derecognition of securities**

When selling securities in the FVTPL valuation category, the Bank uses the average price method to value the decrease in securities.

When selling equity securities in the FVOCI valuation category, the Bank uses the average price method to value the decrease in securities.

When selling debt securities in the FVOCI valuation category or valued at amortised cost, the Bank uses the pro rata method to value the decrease in securities.

# g) Shares, share certificates and other interests

#### **Equity securities**

Equity securities reported in the Balance Sheet item "Shares, share certificates and other interests" include the following:

- equity securities for which it is irrevocably determined that their subsequent changes in fair value will be reported through equity (FVOCI). This determination is based on individual instruments at initial recognition and the equity securities in question must not be "held for trading".
- equity securities that are mandatorily measured at fair value through profit or loss (FVTPL) or included in FVTPL

- see clauses 2c(ii) and 2c(vii) above - that are measured at fair value, any change in which is immediately recognised in profit or loss.

Gains and losses on equity securities irrevocably identified in FVOCI are never reclassified from Valuation differences in equity to profit or loss (i.e. recognised in the Profit and Loss Account). Dividends received are recognised in the Profit and Loss Account unless they clearly represent a reimbursement of part of the cost of the investment (acquisition cost). If the dividends received clearly represent a refund of part of the investment costs (acquisition costs), then they are recognised in equity. The cumulative gains and losses recognised in Valuation differences are transferred to the item "Retained earnings or unrecovered loss from previous periods" at the time of the sale of the securities.

Dividends received are recognised in the Profit and Loss Account when the right to receive payment is established. Dividends received are reported under "Revenues from shares and interests".

## h) Fair value of securities

The fair value of securities is determined as the price listed by the relevant stock exchange or other active public market. In other cases, fair value is estimated as the net present value of cash flows taking into account the risks in the case of bonds.

The Bank uses only data available from the market in its models designed to determine the fair value of securities. Valuation models take into account current market conditions existing at the valuation date, which may not reflect the market situation before or after that date. At the balance sheet date, the Bank's management reviewed these models and ensured that they adequately reflected current market conditions, including relative market liquidity and credit spread.

## i) Participating interests in companies with decisive and significant influence

#### Participating interests with decisive influence

A subsidiary (participating interest with a decisive influence) is an accounting entity controlled by another accounting entity.

Controlling an entity in which an investment has been made means that the investor controls the entity if it is exposed to or entitled to variable revenues by virtue of its exposure to the entity and can influence those revenues through its power over the entity.

The investor therefore controls the entity in which it has invested only if all of the following points apply:

- it has power over the entity in which it has invested,
- on the basis of its exposure to the entity in which it has invested, it is exposed to variable revenues or is entitled to such revenues,

it is able to use its power over the entity in which it has invested to influence the amount of its revenues.

#### Participating interests with significant influence

A company with significant influence (hereinafter an "affiliate") is a company in which the Bank exercises significant influence through its share in financial and operational decisions but does not have the ability to control that company. A company with significant influence is also considered to be a participating interest that the Bank controls together with another person and in which it does not itself have a decisive influence.

Participating interests in companies with significant and decisive influence are valued at acquisition cost, taking into account any permanent impairment.

The creation, release and use of related adjustments are recognised in the Profit and Loss Account in the items "Release of adjustments for participating interests with decisive and significant influence" and "Losses from the transfer of participating interests with decisive and significant influence, creation and use of adjustments for participating interests with decisive and significant influence".

#### j) Sale and repurchase operations

Securities purchased or lent under agreements to resell (reverse repo operations) are not recognised in the Balance Sheet. In the case of the sale of securities thus acquired, the resulting short position is reported at fair value in liabilities arising from debt securities. Securities sold or lent under repurchase agreements (repo operations) are retained in their original portfolio. The underlying cash flows are reported at the settlement date as receivables from banks, receivables from clients, payables to banks and payables to clients.

Securities temporarily exchanged under a collateral exchange agreement are retained in their original portfolio in the case of lent securities. Borrowed (lent) securities are not reported in the Balance Sheet. In the case of the sale of securities thus acquired, the resulting short position is reported at fair value in liabilities arising from debt securities.

#### k) Financial derivatives and hedging

Financial derivatives are initially recognised in the Balance Sheet at acquisition cost and subsequently measured at fair value.

Fair values are derived from discounted cash flow models that are based only on available market data. Valuation models take into account current market conditions existing at the valuation date, which may not reflect the market situation before or after that date.

At the balance sheet date, the Bank reviewed these models and ensured that they adequately reflected current market conditions, including relative market liquidity and credit spread. All derivatives are reported under other assets if they have a positive fair value or under other liabilities if their fair value is negative for the Bank.

Valuation differences on financial derivatives held for trading are included in the profit or loss from financial operations.

The Bank designates certain derivatives in advance to hedge the fair value of selected assets or liabilities (fair value hedging).

Accounting for such financial derivatives as hedging instruments is only possible if the following criteria are met:

- (i) the derivative corresponds to the Bank's risk management strategy;
- (ii) prior to the use of hedge accounting, formal documentation of the general hedging strategy, hedged risk, hedging instrument, hedged item and their relationship is prepared;
- (iii) the hedging documentation demonstrates that the hedge very effectively offsets the risk of the hedged item at inception and throughout the reporting period;
- (iv) hedging is continuously effective;
- (v) the hedged item is not a security measured at fair value through profit or loss.

Valuation differences on financial derivatives that meet the criteria for effective fair value hedging are recognised in the Profit and Loss Account together with the related valuation difference on the hedged asset or liability that is attributable to the hedged risk. If a fair value hedging derivative no longer meets the criteria for hedge accounting, the adjustment to the book value of the hedged item is gradually amortised to the Profit and Loss Account during the maturity of the hedged item.

In the off-balance sheet, derivatives are reported at the undiscounted contractual value of the underlying instrument in the items "Receivables from fixed-term operations" and "Liabilities from fixed-term operations".

The Bank has decided to continue to account for derivatives in accordance with IAS 39.

#### I) Bank guarantees and credit commitments

Issued bank guarantees are recorded in the off-balance sheet from the date of execution of the bank guarantee agreement. The Bank's off-balance sheet liability resulting from a bank guarantee is reduced on the basis of the lending bank's information on the amount of the accumulated repaid principal of the guaranteed credit.

Guarantee revenues are recognised on an accrual basis (see clause 2 o below). As of the date of delivery of the request for performance from the creditor, the request is accounted for in the off-balance sheet records. If the conditions specified in the deed of guarantee are met, the bank guarantee is paid in favour of the creditor. At the moment of performance under the guarantee, the off-balance sheet liability from the request for performance is derecognised and the balance sheet receivable from the client resulting from the performance under the guarantee is still recognised.

Issued credit commitments are commitments to provide a credit according to the agreed conditions. In 2019 and 2020, the Bank did not issue any credit commitments that were valued at FVTPL.

#### m) Interest income and expense

Interest income and expense from all interest-bearing instruments are reported on an accrual basis.

The effective interest rate method is a method for calculating the amortised cost of a financial asset or a financial liability and for allocating the interest income or expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash flows until maturity or until the nearest date of a change in the interest rate to the current value of the financial asset or liability.

When calculating the effective interest rate, the Bank takes into account all contractual cash flows arising from the financial instrument (e.g. early repayment options) but does not include future credit losses in the calculation. The calculation includes all fees paid or received between the parties that are part of the effective interest rate, transaction costs and any premiums or discounts, with the exception of credit fees, which are recognised immediately in revenues from fees and commissions. The straight-line method is used as an approximation of the effective interest rate for securities with a remaining maturity of less than one year at the time of the settlement of the purchase, for credits, other receivables and payables if the periods between repayments are less than one year. Interest income includes accrued coupons and accrued discounts and premiums on all fixed revenue instruments.

Interest income from credits within the support of small and medium-sized enterprises includes accrued interest income paid by clients or interest income paid within that support of small and medium-sized enterprises by the state in accordance with concluded contracts.

Revenues from non-performing credits are also accrued and included in the balances of the respective credit. These amounts are taken into account when determining the adjustment for outstanding credits.

## n) Penalty interest

Penalty interest is accrued to revenues only for receivables in level 1. For other receivables, the accrual of penalty interest income is suspended.

This interest is excluded from revenue until it is collected.

## o) Revenues from fees and commissions

Fees and commissions are reported on an accrual basis as of the date on which the service is provided. Fees and commissions for arranging a transaction for a third party or for contributing to such negotiations are recognised when the transaction to which they relate is completed.

Commissions for the provision of guarantees (with the exception of guarantees financed from OP EIC funds: EXPANSION (EXPANZE), COVID II, COVID Prague (COVID Praha) guarantees) are deferred to revenues on the basis of the expected course of repayment of the principal of the guaranteed credit.

For guarantees financed from OP EIC funds (EXPANSION (EXPANZE), COVID II, COVID Prague (COVID Praha) guarantees), the Bank is entitled to a fee for each managed guarantee in a given calendar month. The fee is charged to the Bank's revenues on a monthly basis.

For COVID III guarantees, the guarantee bank is entitled to a % share of the fee paid by banks.

## p) Provisions

Provisions are established if the Bank has an existing liability as a result of past events and it is probable that an outflow of resources will be required to settle the liability, and the amount of the liability can be reasonably estimated. All provisions are included in liabilities.

The creation of a provision is reported in the relevant item of the Profit and Loss Account; its use is reported together with the costs or losses for which the provisions were created in the relevant item of the Profit and Loss Account. The release of an unnecessary provision is recognised in revenues.

The provision is created in the currency in which the Bank expects the relevant performance.

#### q) Tangible and intangible assets and leased assets

#### Tangible and intangible assets

Tangible and intangible fixed assets are valued at their acquisition cost and depreciated over their estimated useful life using depreciation rates based on the Income Tax Act, as amended. Tangible assets are depreciated using the accelerated depreciation method. Intangible assets are depreciated using the accelerated or straight-line depreciation method, depending on the date of acquisition of the intangible assets are charged directly to costs. The technical appreciated.

#### Leased tangible and intangible assets

The accounting entity has been applying the international accounting standard IFRS 16 Leases since 1 January 2019. A

contract is considered to be a lease if it transfers the right to control the use of the identified asset for a specified period of time for a consideration.

IFRS 16 introduces, in particular, changes in the accounting and reporting on the part of the lessee. An accounting entity in the role of the lessee shall recognise an asset from the right to use the leased asset and the related lease liability in the Balance Sheet, except where:

- the lease period is not more than 12 months;
- or the underlying asset has a low acquisition cost.

A contract contains a lease if, under it, the right to control the use of an identifiable asset for a specified period in exchange for a consideration is transferred.

For individual contracts, the Bank assesses whether the contract meets the definition of a lease, i.e. whether:

- there is an identifiable asset and whether the lessor has a material right to replace the asset with another asset;
- the Bank, as the lessee, has the right to obtain all economic benefits for the period of their use;
- the Bank has the right to control the use of assets, i.e. the lessor cannot change the conditions of use.

At the inception of the lease, the Bank recognises in the statement of financial position:

- the right to use the assets in the item "Tangible fixed assets"; and
- the lease liability in "Other liabilities".

The right of use is measured at acquisition cost, which includes the initial amount of the lease liability adjusted for all lease payments made on or before the commencement date, plus direct costs and an estimate of the costs of dismantling and removing the underlying asset or renewing the underlying asset, less lease incentives.

Subsequently, the right of use is depreciated on a straight-line basis over its expected useful life or over the duration of the lease if shorter. The estimated useful life of the right of use is determined on the same basis as for the asset; in addition, this asset is regularly reduced by any impairment losses and adjusted by a certain revaluation of the lease liability.

At the commencement of the lease, the lease liability is measured at the present value of the lease payments not yet paid at the discounted incremental interest rate. Lease payments include:

- fixed payments, including what are called essentially fixed payments;
- index- or rate-dependent variable lease payments (the index or rate that exists at the inception of the lease is used at the inception of the lease);
- the amount that the lessee must pay within what is called the guaranteed residual value;

- a call option if the Bank envisages its exercise and lease payments, including an extension option, if the Bank has reasonable assurance that it will exercise the extension option; and
- penalties for termination of the lease.

Subsequently, the lease liability is measured at amortised acquisition cost using the effective interest rate method. The liability is divided into interest recognised at interest expense and amortisation recognised as a reduction of the lease liability.

The liability is reassessed in the event of a change in future lease payments resulting from a change in the index or rate if the Bank's estimates of the amount due change or if the Bank changes its estimates as regards the exercise of the call option or extension or termination of the lease of the asset in question.

In the event that the liability is reassessed, the book value of the right of use is adjusted with an impact on the assets, or directly to the Profit and Loss Account if the right of use is fully depreciated, i.e. the book value of the asset is nil.

The Bank applies an exception in the reporting of leases and does not account for rights of use and lease liabilities if the duration of the lease is 12 months or less and/or the subject of the lease is of low value. Lease payments from such contracts are charged directly to costs by the Bank on a straight-line basis over the duration of the lease and are recognised in the item "Administrative costs".

In the event that the Bank acts as the lessor, it evaluates at the beginning of the lease whether it is a financial or operating lease. The transition to IFRS 16 did not result in differences in the reporting of leases in the Bank from the perspective of the lessor.

## r) Taxation

## Tax payable

The tax base for income tax is calculated from the profit or loss for the current period before tax by adding non-deductible costs, deducting revenue that is not subject to income tax, and adjusting for tax rebates and setoffs if any. Current tax stated in the Balance Sheet is already offset against tax advances.

## Value added tax

The Bank is a registered payer of value added tax (hereinafter "VAT"). Tangible and intangible fixed assets and inventories are valued at acquisition cost, including value added tax. The Bank does not apply input VAT as the ratio of income subject to VAT to the total income of the Bank does not reach such an amount that it is cost-effective for the Bank to apply input VAT

Input VAT (excluding tangible and intangible fixed assets) is recognised in costs immediately.

## **Deferred taxes**

Deferred tax is recognised for all temporary differences between the residual value of assets and liabilities in the Balance Sheet and their tax value, using the full liability method. A deferred tax receivable is recognised to the extent that it is probable that it will be realised against expected taxable profits in the future.

The deferred tax is calculated using the approved tax rate for the period in which the Bank expects its realisation.

Deferred tax arising from the revaluation of available-for-sale securities to fair value recognised directly in equity is also recognised in equity.

# s) Staff costs, additional pension insurance and social fund

Staff costs (employees of the Bank and members of the Board of Directors of the Bank in executive management offices) are part of administrative costs and also include remuneration paid to members of the Board of Directors, the Supervisory Board and the Audit Committee.

The Bank contributes to its employees' pension savings and life insurance. These contributions paid by the Bank for pension savings and life insurance are charged directly to costs.

To finance the state pension plan, the Bank makes regular payments to the state budget.

The Bank has created a social fund to cover the social needs of its employees and employee benefits. In accordance with the accounting regulations in force in the Czech Republic, the allocation to the social fund is not reported in the Profit and Loss Account but as a profit distribution. The drawdown of the social fund is not reported in the Profit and Loss Account either; it is reported as a reduction of the fund.

# t) Persons with a special relationship with the Bank

Persons with a special relationship with the Bank (hereinafter "related parties") are defined in accordance with Section 19(1) of the Act on Banks, as amended, as follows:

- a) members of the governing body of the Bank;
- b) members of the Board of Directors and the Supervisory Board of the Bank and members of the Audit Committee, Risk Committee, Remuneration Committee and Appointment Committee;
- c) persons controlling the Bank (see clause 15 of the Notes), persons with a qualifying holding in these persons and members of the management of these persons;
- d) persons close to members of the Bank's governing body, members of the Board of Directors and members of the Supervisory Board of the Bank, members of the Audit

Committee, Risk Committee, Remuneration Committee and Appointment Committee and persons controlling the Bank;

- e) legal entities in which any of the persons referred to in clauses (a), (b) and (c) has a "qualifying holding";
- f) persons with a qualifying holding in the Bank and any person controlled by them;
- g) members of the Bank Board of the Czech National Bank;
- h) persons controlled by the Bank.

## u) Subsequent events

The effect of events that occurred between the balance sheet date and the date of the Financial Statements is recognised in the financial reports if those events provide additional evidence about conditions that existed at the balance sheet date.

If significant events occurred between the balance sheet date and the date of the Financial Statements that take into account conditions that occurred after the balance sheet date, the consequences of those events are described in the Notes but are not recognised in the financial reports.

## v) Regulatory requirements

The Bank must comply with the regulatory requirements of the CNB and the EU. These requirements include limits and other restrictions on banks' capital ratios, classification of credits and off-balance sheet liabilities, the creation of adjustments and provisions to cover credit risk associated with banks' clients, liquidity and the Bank's currency positions.

## x) Support for small and medium-sized enterprises

Through the Bank, the state provides assistance to small and medium-sized entrepreneurs in the following forms:

## **Preferential SME guarantees**

For the provision of guarantees, guarantee funds are created as separate blocks of accounts in which the funds invested by the sponsors of individual support programmes are kept. One guarantee fund can serve several assistance programmes. From the resources of these guarantee funds, entrepreneurs are provided with a contribution used to pay a part of the guarantee price (guarantee commission) called the contribution to the guarantee price (see clause 2 o above) and for a part of guarantees also a financial contribution to the guaranteed loan.

For guarantees of the GUARANTEE 2015-2023 programme, the client does not participate in the payment of the price for the provision of the bank guarantee. The commission is fully paid from the MIT funds.

For the EXPANSION), COVID II and COVID guarantees, the Bank receives a fee for the administration of the Guarantee

Fund. The amount and structure of the fee is in accordance with EU Regulation No. 1303/2013 and is specified in the relevant agreement concluded with the managing authority.

The guarantee funds kept in risk coverage accounts which are part of the guarantee funds cover losses from the performance of guarantees.

These funds are used to satisfy these receivables in the event of unsuccessful recovery of receivables arising from guarantees. Losses arising from the performance of guarantees that exceed the amount of funds held in the relevant risk coverage account are settled by the Bank. In the event of no specialpurpose use of these funds to cover the Bank's final losses from individual programmes, these funds will be returned to the sponsors of these programmes, either continuously or when the guarantee fund is settled. Balances in risk coverage accounts and other guarantee fund accounts are reported as part of Payables to state institutions.

In the case of the COVID II and COVID Prague guarantees, clients are provided with a financial contribution to the guaranteed credit in the amount of interest paid by the client from the OP EIC funds.

Since 2012, with the consent of shareholders, privileged guarantees have been provided that are co-financed from the Bank's own resources.

## **Preferential loans**

The Bank provides preferential loans at lower-than-market rates and uses variously structured combinations of state funds, funds obtained from international financial institutions or the financial market to refinance them. For loans provided without the use of structural funds and privileged regional credits from the resources of the South Bohemian Region, state funds represent a source for covering part or the full amount of losses from credits provided and reimbursement of that part of the Bank's costs and reasonable profit not reflected in the interest rate amount. The Bank agreed with the sponsors on the following credit programmes: in 2017 Expansion, Energy Savings and ENERG with the MIT, in 2018 the INFIN credit programme with the City of Prague, and in 2019 the S-ENTERPRISE loan programme with the MoLSA, which are provided in the form of co-financing investment loans with a zero interest rate and a possible interest rate subsidy for a co-financed commercial credit. In 2020, the Bank entered into an Agreement with the MIT on the COVID Credit Fund, on the basis of which credits were provided to clients of SMEs affected by the COVID pandemic. In 2020, the provision of EXPANSION loans was also expanded to include COVID loans.

For loans provided since 2004 with the participation of the Structural Funds, the source has been loan funds, which are created as separate blocks of accounts in which funds deposited by the sponsors of individual support programmes and funds deposited by the Bank obtained from international financial institutions or the financial market are kept. Interest on credits is transferred to the relevant credit funds. Remuneration (commission) in the amount and structure agreed with the managing authority is paid to the Bank for activities related to the management of loan funds and individual loans.

In the case of credit transactions, unlike guarantees, no risk coverage fund is created and the percentages of allowable losses are set in the contracts with the programme sponsors. Losses above the set limit are covered by the Bank.

The amount of allowable losses is recorded in the offbalance sheet and is reported in the item Commitments and guarantees received.

## y) Support for repairs of apartment buildings

Through the Bank, the State Housing Development Fund provides aid to apartment building owners in the following forms:

## **Preferential guarantees**

Guarantees were provided by the Bank in its own name. Following the provision of the guarantee, the resources of the State Housing Development Fund were transferred to risk coverage accounts, from which losses arising from the performance of guarantees are covered. These funds are used to satisfy these receivables in the event of unsuccessful recovery of receivables arising from guarantees. Losses arising from the performance of guarantees that exceed the amount of funds held in the relevant risk coverage account are settled by the Bank. In the event of no special-purpose use of these funds (receivables are fully repaid, the guarantees in guestion expire or guarantee receivables are repaid in full), these funds will be returned to the State Housing Development Fund, either continuously (for portfolio guarantees) or upon the settlement of the guarantee fund. The balances in risk coverage accounts were transferred to the CNB in 2013; there they are earmarked for their original purpose. The Bank records balances in off-balance sheet accounts. The State Housing Development Fund pays a fee to the Bank for the administration of the guarantees that are provided. The provision of new guarantees was terminated in 2012 by the decision of the programme sponsor.

## Interest rate subsidies

As a representative, the Bank, in the name of and on behalf of the State Housing Development Fund, entered into agreements with apartment building owners on the gradual payment of subsidies for the payment of interest, for a period of up to 15 years. These subsidies are paid by the Bank from the State Housing Development Fund. The State Housing Development Fund pays the Bank the remuneration as the representative and the remuneration for payment services and related banking services.

The provision of new subsidies was terminated in 2011 by the decision of the programme sponsor.

## z) Credits to municipalities

The Bank provides credits to municipalities from funds obtained under special programmes from international financial institutions invested by the Czech Republic in the Regional Development Fund programme, supplemented by funds obtained by the Bank from the financial market.

## aa) The Bank's participation in the Central Europe Fund of Funds

On the basis of Czech Government Resolution No. 1164/2016, which approved the participation of the Czech Republic in the Central Europe Fund of Funds (CEFoF) managed by the European Investment Fund (EIF) through the Bank, agreements with the EIF and the Ministry of Industry and Trade (MIT) were signed by the Bank in December 2017, fulfilling this. Out of the total framework of CZK 240 million of the participation of the Czech Republic, a subsidy in the amount of CZK 13.4 million was received from the MIT in the first guarter of 2018 and CZK 4.1 million in the third guarter. The investment in the CEFoF in 2018 amounted to CZK 15.8 million. In 2019, a subsidy from the MIT in the amount of CZK 8.6 million was received in the second guarter. The investment in the CEFoF in 2019 amounted to CZK 24 million. In 2020, subsidies were received from the MIT in the amount of CZK 10.1 million. As at 31 December 2020, the total investment in the CEFoF amounted to CZK 34 million. Further drawing will take place gradually, on the basis of the individual requirements of the CEFoF.

#### bb) Impact of changes in accounting methods

In 2020, there was no change in accounting methods and no correction of the errors of previous periods.

# 3. Cash on hand and deposits with the central bank

## Cash on hand and deposits with central banks by type of instrument

in CZK millio	ns 31 December 2020	31 December 2019
Cash on hand	1	4
Mandatory minimum provisions	5	17
Net book value	6	21

The mandatory minimum provisions represent the Bank's mandatory deposits with the CNB. They bear interest at the reported for the Czech crown, which as at 31 December 2020 was 0.25% p.a. (as at 31 December 2019: 2.00% p.a.).

## Deposits with central banks - adjustment

in CZK millions	31 December 2020	31 December 2019
Gross amount	5	17
Adjustments	0	0
Total	5	17

As at 31 December 2020 and 2019, deposits with central banks were not credit-impaired, and no significant increase in credit risk was identified for them. Adjustments were calculated on the basis of the expected 12-month credit loss.

# 4. Government zero-coupon bonds and other securities accepted by the central bank for refinancing

#### Government zero-coupon bonds and other securities accepted by the CNB for refinancing, by type of instrument

in CZK millions	31 December 2020	31 December 2019
Government bonds	18,168	15,499
Net book value	18,168	15,499

In the periods under review, the Bank did not hold securities with a contractual maturity of up to one year. As at 31 December 2020 and 2019, the total value of government bonds and other securities accepted by the central bank for refinancing is represented only by securities issued by related parties, i.e. the Czech Republic.

# Classification of government zero-coupon bonds and other securities accepted by the CNB for refinancing by valuation categories

in CZK millions	31 December 2020	31 December 2019
At amortised cost (AC)	7,161	5,592
Measured at fair value through equity (FVOCI)	11,007	9,907
Net book value	18,168	15,499

## Government zero-coupon bonds and other securities accepted by the CNB for refinancing – adjustment

in CZK millions	31 December 2020	31 December 2019
Gross amount	18,170	15,501
Adjustments	-2	-2
Total	18,168	15,499

As at 31 December 2020 and 2019, government zero-coupon bonds and other securities accepted by the CNB for refinancing were not credit-impaired and were not associated with a significant increase in credit risk. Adjustments were calculated on the basis of the expected 12-month credit loss.

## Government zero-coupon bonds and other securities accepted by the CNB for refinancing at FVOCI

Government zero-coupon bonds and other securities accepted by the CNB for refinancing at FVOCI are reported in the Balance Sheet at fair value. Their book value is not reduced by an adjustment in the amount of CZK 4 million as at 31 December 2020 (as at 31 December 2019: CZK 4 million), by which the Bank adjusted the item Valuation differences in equity.

# 5. Receivables from banks

## Receivables from banks by type

in CZK millions	31 December 2020	31 December 2019
Current accounts with banks	3	7
Receivables from reverse REPO operations with the CNB	3,202	1,100
Other receivables from banks	0	26
Net book value	3,205	1,133

As at 31 December 2020 and 2019, no receivables from related parties were recorded.

# Classification of receivables from banks by valuation categories

All receivables from banks as at 31 December 2020 and 31 December 2019 are measured at amortised cost in accordance with IFRS 9.

## Receivables from banks by type - adjustment

in CZK millions	31 December 2020	31 December 2019
Gross amount	3,206	1,133
Adjustments	-1	0
Total	3,205	1,133

As at 31 December 2020 and 2019, receivables from banks were not credit-impaired, and no significant increase in credit risk was identified for them. Adjustments were calculated on the basis of the expected 12-month credit loss.

# 6. Receivables from clients

## Receivables from clients by type

in CZK millions	31 December 2020	31 December 2019
Credit receivables	6,873	5,093
Credit-impaired financial assets (Purchased or Originated Credit- Impaired; POCI)*	841	611
Gross value of receivables from clients	7,714	5,704
Adjustment for expected losses (item 11)	-745	-263
Net value of receivables from clients	6,969	5,441

\* This is performance under guarantee

Of the total amount of receivables from clients, receivables from related parties amounted to CZK 561 million as at 31 December 2020 (31 December 2019: CZK 923 million).

# Receivables from clients by valuation categories

in CZK millions	31 December 2020	31 December 2019
Receivables from clients at amortised cost	6,963	5,423
Receivables from clients mandatorily in FVTPL	6	18
Net value of receivables from clients	6,969	5,441

# Receivables from clients at amortised cost according to the credit risk rating grade

	Grade 1	Grade 2	Grade 3		
31. 12. 2020 in CZK millions	12-month expected credit losses	Expected credit losses over the duration for financial assets that are not credit impaired	Expected credit losses over the duration for financial assets that are credit- impaired	Purchased or provided credit impaired financial assets	Total
Rating grade					
Credit rating 1-6 (up to X7)	5,844	0	0	0	5,844
Credit rating 7 (up to X8)	0	547	0	0	547
Credit rating 8-10 (including X9)	0	0	482	841	1,323
Gross value of receivables from clients	5,844	547	482	841	7,714
Adjustments	-295	-273	-177	0	-745
Net value of receivables from clients	5,549	274	305	841	6,969

	Grade 1	Grade 2	Grade 3		
- 31. 12 .2019 in CZK millions	12-month expected credit losses	Expected credit losses over the duration for financial assets that are not credit- impaired	Expected credit losses over the duration for financial assets that are credit- impaired	Purchased or provided credit impaired financial assets	Total
Rating grade					
Credit rating 1-6 (up to X7)	4,435	0	0	0	4,435
Credit rating 7 (up to X8)	2	244	0	0	246
Credit rating 8-10 (including X9)	0	0	412	611	1,023
Gross value of receivables from clients	4,437	244	412	611	5,704
Adjustments	-80	-88	-95	0	-263
Net value of receivables from clients	4,357	156	317	611	5,441

The amount of adjustments for receivables from clients is described in more detail in clause 11.

## **Consortium credits**

Of receivables from clients as at 31 December 2020, consortium credits amount to CZK 183 million (2019: CZK 266 million).

## Analysis of receivables from clients by type of collateral

The table shows the value of collateral received, up to the value of the credit. The unsecured part of the credits is then reported under the item Not secured.

in CZK millions	31 December 2020	31 December 2019
Bank guarantees and collateral by reliable guarantors	1,370	981
Money collateral	3	2
Collateral as real estate mortgage	354	233
Other credit collateral	164	161
Not secured	5,823	4,327
Gross value of receivables	7,714	5,704

## Credits to state institutions

Credits to state institutions mainly represent credits provided to the Ministry of Finance of the Czech Republic in connection with infrastructure programmes. These programmes focus on the construction of the motorway network, the repairs of international roads, the elimination of flood damage and water management investments. Resources for these programmes were provided by the European Investment Bank.

## The monetary structure of receivables and payables from infrastructure programmes is as follows:

	31	I December 2020	31	December 2019
in CZK millions	Assets	Liabilities <sup>1)</sup>	Assets	Liabilities <sup>1)</sup>
CZK – principal	0	0	107	107
CZK – accrued interest	0	0	0	0
EUR – principal	555	555	807	807
EUR – accrued interest	6	6	9	9
Gross value of receivables	561	561	923	923

# Sectoral breakdown of receivables from clients

in CZK millions	31 December 2020	31 December 2019
Government institutions	753	1,152
Non-financial enterprises	6,604	4,287
Other financial institutions	29	0
Households (include homeowner associations)	328	265
Gross value of receivables from clients	7,714	5,704

<sup>&</sup>lt;sup>1)</sup> The liabilities column represents credits received from the European Investment Bank, thus balancing the monetary structure of the financing of receivables from infrastructure programmes.

in CZK millions	31 December 2020	31 December 2019
Administrative and support service activities	86	55
Activities of households as employers	0	1
Real estate activities	192	124
Transport and storage	284	174
Information and communication activities	87	33
Cultural, entertainment and recreational activities	65	51
Other activities	50	12
Finance and insurance	42	13
Professional, scientific and technical activities	249	189
Construction	612	350
Mining and quarrying	4	3
Accommodation, catering and hospitality	242	147
Wholesale and retail	1,684	1,054
Public administration and defence	753	1,151
Production and distribution of electricity, gas and heat	202	288
Education	34	3
Water supply	108	62
Health and social care	98	39
Agriculture, forestry and fishing	195	112
Manufacturing industry	2,727	1,843
Gross value of receivables from clients	7,714	5,704

# Breakdown of receivables from clients according to the classification of economic activities (CZ-NACE)

# Breakdown of receivables from clients by individual programmes

in CZK millions	31 December 2020	31 December 2019
Credits granted to state institutions	561	923
Credits for financing water management and municipal infrastructure	197	226
Other credits for small and medium-sized entrepreneurs	6,051	3,897
Credits for small and beginning entrepreneurs	35	38
Receivables from guarantees	841	611
Other receivables	29	9
Gross value of receivables from clients	7,714	5,704

# 7. Securities

## Debt securities by type

in CZK millions	31 December 2020	31 December 2019
Bonds issued by government institutions	443	608
Bonds issued by credit institutions	597	607
Bonds issued by other financial institutions	44	97
Bonds issued by non-financial enterprises	210	308
Net book value	1,294	1,620

Of the total value of securities, securities issued by related parties amount to CZK 78 million as at 31 December 2020 (as at 31 December 2019: CZK 78 million). None of these securities were issued by the state.

## Debt securities by valuation categories

in CZK millions	31 December 2020	31 December 2019
Debt securities measured at fair value through equity (FVOCI)	1,294	1,462
Debt securities measured at fair value through profit or loss (FVTPL)	0	158
Net book value	1,294	1,620

Debt securities held by the bank are traded on stock exchanges.

# **Debt securities in FVOCI**

1,294	0	0	1.294
credit losses	impaired	impaired	Total
12-month	assets that	assets that	
	for financial	for financial	
	duration	duration	
	over the	over the	
	credit losses	credit losses	
	Expected	Expected	
Grade 1	Grade 2	Grade 3	
	12-month expected credit losses	Expected credit losses over the duration for financial 12-month assets that expected are not credit- credit losses impaired	Expected Expected credit losses credit losses over the over the duration duration for financial for financial 12-month assets that assets that expected are not credit- credit losses impaired impaired

1,620	0	0	1.620
credit losses	impaired	impaired	Total
expected	are not credit-	are credit-	
12-month	assets that	assets that	
	for financial	for financial	
	duration	duration	
	over the	over the	
	credit losses	credit losses	
	Expected	Expected	
Grade 1	Grade 2	Grade 3	
	expected credit losses	Expected credit losses over the duration for financial 12-month assets that expected are not credit- credit losses impaired	Expected credit losses over the duration for financial expected are not credit- credit losses over the duration for financial and the texpected credit losses impairedExpected credit impaired

Debt securities at FVOCI are reported in the Balance Sheet at fair value. Their book value is not reduced by the adjustment of CZK 4 million as at 31 December 2020 (as at 31 December 2019: CZK 4 million) set by the Bank. This is part of the item Valuation differences in the Bank's equity.

# 8. Shares, share certificates and other interests and PARTICIPATING INTERESTS in companies with decisive and significant influence

# Shares, share certificates and other interests

## Shares, share certificates and other interests by type

in CZK millions	31 December 2020	31 December 2019
Shares issued by financial institutions	35	34
Net book value	35	34

## Shares, share certificates and other interests by valuation category

in CZK millions	31 December 2020	31 December 2019
Shares measured at fair value through equity (FVOCI)	35	34
Net book value	35	34

In 2017, the Bank purchased from the European Investment Bank three shares of the European Investment Fund with a total par value of EUR 3,000,000 and thus became, like many other development banks and institutions, a minority shareholder in the EIF. The acquisition cost of the shares was EUR 1,280,858.04.

## Participating interests with decisive influence

In 2019, the Bank established a subsidiary, ČMZRB investiční, a.s., with its registered office at Na Florenci 1496/5, 110 00 Prague 1, in which it holds a 100% share. The company's objective is to fulfil the strategic goals of ČMZRB as a national development bank in the area of capital investments within the MIT programmes for small and medium-sized enterprises.

## The value of this participating interest as at 31 December 2020 and 2019 was as follows:

Year	Net book value in CZK mil- lions	Acquisi- tion cost in CZK mil- lions	Par value in CZK millions	Registered capital in CZK mil- lions	items	Direct share in the registered capital and voting rights in %
2020	4	2	2	2	2	100
2019	4	2	2	2	2	100

## Summary financial information about ČMZRB investiční, a.s.

	Financial information of the affiliat				
in CZK millions	Equity	Total assets	Revenues	Profit/loss	
As at 31 December 2020 and for 2020	2	4	9	0	
As at 31 December 2019 and for 2019	3	3	0	-1	

## Participating interests with significant influence

The Bank has one affiliate, which is MUFIS a.s. (hereinafter "MUFIS"), with its registered office at Jeruzalémská 964/4, 110 00 Prague 1. The Ministry of Finance of the Czech Republic holds a participating interest of 49% and the Union of Towns and Municipalities of the Czech Republic holds 2%.

Voor	Net book value in CZK millions		Par value in CZK millions	Registered capital in CZK millions	Direct share in the registered capital and voting rights in %
Year 2020	1	1	CZK millions	2	rights in %
2019	1	1	1	2	49

## The value of this participating interest as at 31 December 2020 and 2019 was as follows:

## Summary financial information about MUFIS a.s.

	<b>Financial information of the affiliate</b>			
in CZK millions	Equity	Total assets	Revenues	Profit/loss
As at 31 December 2020 and for 2020	5	5	0	-1
As at 31 December 2019 and for 2019	5	5	0	0

In terms of share, the Bank is the controlling entity, together with the Ministry of Finance of the Czech Republic. For the Bank, MUFIS represents an affiliate that does not meet the characteristics of a jointly managed enterprise, as the Bank does not participate in the management of the affiliate MUFIS.

In 2019, MUFIS a.s., paid a dividend of CZK 9 million to the Bank. In the Profit and Loss Account, it is presented in the item Revenues from shares and interests. At present, the company's activities are subdued.

# 9. Tangible and intangible fixed assets

# Tangible fixed assets

in CZK millions	Land and art works	Buildings	Equipment and facili- ties	Investments in progress and prepay- ments	Total
As at 1 January 2019					
Acquisition cost	11	324	78	3	416
Accumulated depreciation	0	-224	-72	0	-296
Residual value	11	100	6	3	120
Year ended on 31 December 2019					
Initial residual value	11	100	6	3	120
Acquisition	0	12	8	22	42
Disposals at residual value	0	0	0	-21	-21
Additions of accumulated depreciation (depreciation)	0	-8	-3	0	-11
Final residual value	11	104	11	4	130
As at 31 December 2019					
Acquisition cost	11	336	85	4	436
Accumulated depreciation	0	-232	-74	0	-306
Residual value	11	104	11	4	130

## Notes to the unconsolidated Financial Statements in accordance with the Czech accounting regulations as at 31 December 2020

in CZK millions	Land and art works	Buildings	Equipment and facili- ties	Investments in progress and prepay- ments	Total
Year ended on 31 December 2020					
Initial residual value	11	104	11	4	130
Acquisition	0	0	6	3	9
Disposals at residual value	0	0	0	-7	-7
Additions of accumulated depreciation (depreciation)	0	-8	-4	0	-12
Final residual value	11	96	13	0	120
As at 31 December 2020					
Acquisition cost	11	336	84	0	431
Accumulated depreciation	0	-240	-71	0	-311
Residual value	11	96	13	0	120

# Intangible fixed assets

		Other	Investments in progress	
in CZK millions	Software	intangible assets	and prepay- ments	Total
As at 1 January 2019				
Acquisition cost	252	13	5	270
Accumulated depreciation	-243	-13	0	-256
Residual value	9	0	5	14
Year ended on 31 December 2019				
Initial residual value	9	0	5	14
Acquisition	6	1	19	26
Disposals at residual value	0	0	-12	-12
Additions of accumulated depreciation (depreciation)	-7	0	0	-7
Final residual value	8	1	12	21
As at 31 December 2019				
Acquisition cost	258	14	12	284
Accumulated depreciation	-250	–13	0	-263
Residual value	8	1	12	21

## Notes to the unconsolidated Financial Statements in accordance with the Czech accounting regulations as at 31 December 2020

in CZK millions	Software	Other intangi- ble assets	Investments in progress and prepay- ments	Total
Year ended on 31 December 2020				
Initial residual value	8	1	12	21
Acquisition	44	0	37	81
Disposals at residual value	0	0	-44	-44
Additions of accumulated depreciation (depreciation)	-10	0	0	-10
Final residual value	42	1	5	48
As at 31 December 2020				
Acquisition cost	300	14	5	319
Accumulated depreciation	-258	-13	0	-271
Residual value	42	1	5	48

# Tangible fixed assets acquired under lease – from 1 January 2019 according to IFRS 16

<u> </u>	Land and	-	-	
CZK millions	buildings	Vehicles	Other	Total
As at 1 January 2019				
Acquisition cost	17	0	0	17
Accumulated depreciation	0	0	0	0
Residual value	17	0	0	17
Year ended on 31 December 2019				
Initial residual value	17	0	0	17
Acquisition	0	0	0	0
Disposals at residual value	0	0	0	0
Additions of accumulated depreciation (depreciation)	-6	0	0	-6
Final residual value	11	0	0	11
As at 31 December 2019				
Acquisition cost	17	0	0	17
Accumulated depreciation	-6	0	0	-6
Residual value	11	0	0	11
Year ended on 31 December 2020				
Initial residual value	11	0	0	11
Acquisition	0	0	0	0
Disposals at residual value	0	0	0	0
Additions of accumulated depreciation (depreciation)	-5	0	0	-5
Final residual value	6	0	0	6
As at 31 December 2020				
Acquisition cost	17	0	0	17
Accumulated depreciation	-11	0	0	-11
Residual value	6	0	0	6

# 10. Other assets, deferred costs and accrued income

in CZK millions	31 December 2020	31 December 2019
Positive fair value of financial derivatives (clause 24 c)	9	5
Receivables from the Fund's deposits	25	0
Other receivables*	114	39
Gross value of other assets	148	44
Adjustments (item 11)	-13	-11
Total	135	33

\* As at 31 December 2020, the item Other receivables includes an advance on corporate income tax in the amount of CZK 63 million.

Of the total value of other assets, other assets from related parties amount to CZK 25 million as at 31 December 2020 (as at 31 December 2019: CZK 0 million).

## Deferred costs and accrued income

in CZK millions	31 December 2020	31 December 2019
Deferred costs	6	5
Accrued income	60	30
Gross value	66	35
Adjustments (item 11)	0	0
Total	66	35

Of the total value of accrued income, accrued income from related parties amounts to CZK 60 million as at 31 December 2020 (as at 31 December 2019: CZK 30 million). The increase in accrued income is due to an increase in the volume of aid provided to the business sector, especially for the management of COVID products, which will be collected in the following period.

# 11. Adjustments, provisions and depreciation of assets

# The Bank reported the following provisions and adjustments:

in CZK millions	31 December 2020	31 December 2019
Provisions		
Provisions for guarantees provided (item 16)	3,259	3,544
Provisions for credit commitments (item 16)	34	18
Provisions for lines of credit (item 16)	1	1
Other provisions	17	20
Total	3,311	3,583
Adjustments		
Receivables from central banks (item 3)	0	0
Receivables from other banks (item 5)	1	0
Receivables from clients (item 6)	745	263
Securities at amortised cost (item 4)	2	2
Other assets, deferred costs and accrued income (item 10)	13	11
Total	761	276

in CZK millions	Provision for corporate income tax	Provision Crisis Resolution Fund	Provision Deposit Insurance Fund	Other provisions in total
As at 1 January 2019	0	20	0	20
Net generation/dissolution	66	14	1	81
Application	-66	-14	-1	-81
As at 31 December 2019	0	20	0	20
Net generation/dissolution	0	14	1	15
Application	0	-17	-1	-18
As at 31 December 2020	0	17	0	17

#### The change in other provisions can be analysed as follows:

The table for other provisions includes the following items:

- In 2020 the creation of a provision for corporate income tax as at 31 December 2020: CZK 0 million (as at 31 December 2019: CZK 67 million), release of a provision for corporate income tax as at 31 December 2020: CZK 0 million (as at 31 December 2019: CZK 1 million) and the use of this provision in the amount of the actually recognised tax liability as at 31 December 2020 in the amount of CZK 0 million (as at 31 December 2019: CZK 66 million). As at 31 December 2020, the Bank did not incur any tax liability. As at 31 December 2019, the tax payable was also reported with tax advances within other liabilities in the amount of CZK 15 million;
- Creation of a provision for the annual contribution to the Crisis Resolution Fund in the amount of CZK 17 million (as at 31 December 2019: CZK 20 million). Simultaneously with the payment to the Crisis Resolution Fund, a provision of CZK 17 million (in 2019: CZK 14 million) was used and the remaining part of the created provision of CZK 3 million (as at 31 December 2019: CZK 6 million) was released because it was no longer needed. The provision of CZK 17 million will be used to pay the contribution in 2021, depending on the actual amount of the contribution set by the CNB.

# Reconciliation of opening and closing provision balances

## Guarantees provided

	Lifetime ECL for financial assets that are not credit- 12-month ECL	Lifetime ECL for financial assets that are credit- impaired	impaired	
in CZK millions	(grade 1)	(grade 2)	(grade 3)	Total
Balance as at 1 January 2019	2,768	213	320	3,301
Conversion from 12-month ECL (grade 1)	-81	35	46	0
Conversion from lifetime ECL for financial assets that are not credit- impaired (grade 2)	2	-16	14	0
Conversion from lifetime ECL for financial assets that are not credit- impaired (grade 3)	0	11	-11	0
Newly provided or purchased financial assets	1,005	0	0	1,005
Derecognition of financial assets	-653	-7	-97	-757
Depreciation	0	0	0	0
Revaluations and changes in models/risk parameters	236	-148	-93	-5
Exchange rate differences and other movements	0	0	0	0
Balance as at 31 December 2019	3,277	88	179	3,544

## Notes to the unconsolidated Financial Statements in accordance with the Czech accounting regulations as at 31 December 2020

	12-month ECL	Lifetime ECL for financial assets that are not credit- impaired	Lifetime ECL for financial assets that are credit- impaired	
in CZK millions	(grade 1)	(grade 2)	(grade 3)	Total
Conversion from 12-month ECL (grade 1)	-2,240	2,228	12	0
Conversion from lifetime ECL for financial assets that are not credit- impaired (grade 2)	1	-24	23	0
Conversion from lifetime ECL for financial assets that are not credit- impaired (grade 3)	1	14	-15	0
Newly provided or purchased financial assets	508	0	0	508
Derecognition of financial assets	-745	-12	-99	-856
Depreciation	0	0	0	0
Revaluations and changes in models/risk parameters	55	-70	78	63
Exchange rate differences and other movements	0	0	0	0
Balance as at 31 December 2020	857	2,224	178	3,259

# Credit commitments and lines of credit

	12-month ECL	Lifetime ECL for financial assets that are not credit- impaired	Lifetime ECL for financial assets that are credit- impaired	
in CZK millions	(grade 1)	(grade 2)	(grade 3)	Total
Balance as at 1 January 2019	17	0	0	17
Conversion from lifetime ECL for financial assets that are not credit- impaired (grade 2)	-1	1	0	0
Newly provided or purchased financial assets	15	0	0	15
Derecognition of financial assets	-15	-15	-1	-31
Revaluations and changes in models/risk parameters	2	15	1	18
Balance as at 31 December 2019	18	1	0	19
Conversion from 12-month ECL (grade 1)	-5	2	3	0
Newly provided or purchased financial assets	26	0	0	26
Derecognition of financial assets	–13	-3	0	-16
Revaluations and changes in models/risk parameters	5	2	0	7
Balance as at 31 December 2020	30	2	3	35

# Reconciliation of opening and closing adjustment balances

## **Receivables from clients**

	12-month ECL	fetime ECL for non-credit- impaired financial assets	Lifetime ECL for credit-impaired financial assets	Total
in CZK millions	(grade 1)	(grade 2)	(grade 3) + POCI	
Balance as at 1 January 2019	50	66	205	321
Conversion to 12-month ECL (grade 1)	92	-56	-36	0
Conversion to lifetime ECL for financial assets that are not credit- impaired (grade 2)	0	4	-4	0
Conversion to lifetime ECL for financial assets that are not credit- impaired (grade 3)	0	0	0	0
Newly provided or purchased financial assets	39	0	0	39
Derecognition of financial assets	-1	0	-3	-4
Depreciation	0	0	-256	-256
Income from previously written-off receivables	0	0	1	1
Revaluations and changes in models/risk parameters	-100	74	189	163
Exchange rate differences and other movements	0	0	-1	-1
Balance as at 31 December 2019	80	88	95	263
Conversion to 12-month ECL (grade 1)	306	-235	-71	0
Conversion to lifetime ECL for financial assets that are not credit- impaired (grade 2)	-5	25	-20	0
Conversion to lifetime ECL for financial assets that are not credit- impaired (grade 3	0	-4	4	0
Newly provided or purchased financial assets	56	0	0	56
Derecognition of financial assets	-3	—б	0	-9
Depreciation	0	0	-183	-183
Income from previously written-off receivables	0	0	1	1
Revaluations and changes in models/risk parameters	-139	405	348	614
Exchange rate differences and other movements	0	0	3	3
Balance as at 31 December 2020	295	273	177	745

# Undiscounted expected credit losses from first reported POCI

The overview of undiscounted expected credit losses (ECL) on initial recognition of purchased or provided credit-impaired financial assets (POCI) first reported during the fiscal period is as follows:

in CZK millions	2020	2019
Receivables from clients	42	58
Total	42	58

#### Securities

	12-month ECL	Lifetime ECL for financial assets that are not credit- impaired	Lifetime ECL for financial assets that are credit- impaired	
in CZK millions	(grade 1)	(grade 2)	(grade 3)	Total
Balance as at 1 January 2019	2	0	0	2
Newly provided or purchased financial assets	0	0	0	0
Revaluations and changes in models/risk parameters	0	0	0	0
Balance as at 31 December 2019	2	0	0	2
Newly provided or purchased financial assets	0	0	0	0
Revaluations and changes in models/risk parameters	0	0	0	0
Balance as at 31 December 2020	2	0	0	2

# Other financial assets

	12-month ECL	Lifetime ECL for financial assets that are not credit- impaired	Lifetime ECL for financial assets that are credit- impaired	
in CZK millions	(grade 1)	(grade 2)	(grade 3)	Total
Balance as at 1 January 2019	0	0	11	11
Conversion to 12-month ECL (grade 1)	0	0	0	0
Newly provided or purchased financial assets	22	0	0	22
Derecognition of financial assets	-22	0	-1	-23
Depreciation	0	0	-1	-1
Revaluations and changes in models/risk parameters	0	0	2	2
Balance as at 31 December 2019	0	0	11	11
Conversion to 12-month ECL (grade 1)	0	0	0	0
Newly provided or purchased financial assets	25	0	0	25
Newly provided or purchased financial	-24	0	0	-24
Depreciation	0	0	-1	-1
Revaluations and changes in models/risk parameters	0	0	3	3
Balance as at 31 December 2020	1	0	13	14

# Overview of the balance of adjustments

		31. 12. 2020				
in CZK millions Bank's rating grade	Impairment grade IFRS 9	Receivables from clients	Securities	Other financial assets	Total	
Credit rating 1–6 (up to X7)	Grade 1	295	2	1	298	
Credit rating 7 (up to X8)	Grade 2	273	0	0	273	
Credit rating 8–10 (including X9) and credit-impaired financial assets	Grade 3	177	0	13	190	
Total		745	2	14	761	

		31. 12.	2019		
Credit rating 1–6 (up to X7)	Grade 1	80	2	0	82
Credit rating 7 (up to X8)	Grade 2	88	0	0	88
Credit rating 8–10 (including X9) and credit-impaired financial assets	Grade 3	95	0	11	106
Total		263	2	11	276

#### Notes to the unconsolidated Financial Statements in accordance with the Czech accounting regulations as at 31 December 2020

Write-offs of receivables, revenues from previously written-off receivables and losses from the transfer of receivables

in CZK millions	2020	2019
Losses from transfer of receivables	0	0
Write-off of receivables from clients	174	247
Revenues from written-off receivables	1	1

Bad debts (unrecoverable receivables) are written off against adjustments or directly to costs in cases where the Bank's management is convinced that their collection is unrealistic.

Written-off amounts include unpaid principal, including balance sheet fees and interest.

# 12. Payables to banks

in CZK millions	31 December 2020	31 December 2019
Credits received from development banks*	942	1,410
Total	942	1,410

\* Development banks are: the European Investment Bank (EIB), Kreditanstalt für Wiederaufbau (KfW), the Nordic Investment Bank (NIB) and the Council of Europe Development Bank (CEB).

As at 31 December 2020 and 2019, no payables to related parties were recorded.

# 13. Payables to clients

in CZK millions	31 December 2020	31 December 2019
Payables to government institutions	17,381	10,812
Payables to other financial institutions	3,273	2,875
Payables to non-financial enterprises	48	43
Payables to households (include homeowner associations)	4	6
Total	20,706	13,736

Of the total amount of payables to clients, payables to related parties as at 31 December 2020: CZK 16,709 million (as at 31 December 2019: CZK 10,979 million). The Bank's management believes that such deposits were accepted in principle under the same conditions and interest rates as comparable transactions with other clients made at the same time. In the opinion of the Bank's management, an interest rate other than the usual interest rate was not used in these cases and these deposits do not show a different liquidity risk or other unfavourable factors.

Under the item "Payables to government institutions", funds are included, inter alia, in risk coverage accounts if they are created from funds provided by programme sponsors. The structure of these payables is as follows:

in CZK millions	31 December 2020	31 December 2019
Funds of sponsors from closed programme aid*	11,030	8,890
Guarantee risk coverage accounts**	6,870	2,626

\* Of which: the OP EIC Credits Expansion programme amounts to CZK 6,289 million (as at 31 December 2019: CZK 1,913 million), the OP EIC Credits programme – Expansion – the COVID programme CZK 428 million (as at 31 December 2019: CZK 0 million), the OP EIC Credits programme – ENERGY SAVINGS CZK 192 million (as at 31 December 2019: CZK 281 million), the ENERG programme CZK 129 million (as at 31 December 2019: CZK 412 million), the COVID Loans programme CZK 496 million (as at 31 December 2019: CZK 412 million) and the OP EIC EXPANSION Guarantee programme amounts to CZK 818 million (as at 31 December 2019: CZK 412 million)

\*\* Risk coverage accounts for guarantees in the COVID II programmes in the amount of CZK 3,584 million (as at 31 December 2019: CZK 0 million) and COVID Prague in the amount of CZK 402 million (as at 31 December 2019: CZK 0 million)

Risk coverage accounts for the Panel and New Panel programmes in the amount of CZK 969 million (as at 31 December 2019: CZK 969 million) are recorded in the off-balance sheet (item x)).

# 14. Other deferred liabilities, revenues and expenses

in CZK millions	31 December 2020	31 December 2019
Negative fair value of interest rate derivatives (clause 24 c)	5	2
Negative fair value of currency derivatives (clause 24 c)	7	29
Other special-purpose deposits and liabilities – resulting credit balance	1	32
Liabilities from tax payable	0	15
Deferred tax payable	0	15
Liabilities arising from leases	7	12
Fund's deposited funds	25	0
Other	41	36
Total	86	141

Of the total value of other liabilities, other liabilities from related parties amount to CZK 25 million as at 31 December 2020 (as at 31 December 2019: CZK 0 million).

## Other special-purpose deposits and liabilities - resulting credit balance

in CZK millions	31 December 2020	31 December 2019
Credits Housing and Floods	0	1
Total receivables	0	1
Sources of coverage of the Housing and Floods programmes	1	33
Total payables	1	33
Other special-purpose deposits and liabilities – resulting balance	1	32

The payable is recognised on a net basis because the credits are provided on behalf of the source provider and not by the Bank.

## **Deferred revenues and expenses**

in CZK millions	31 December 2020	31 December 2019
Accrued revenues	85	140
of which: accrued guarantee management fees	78	129
Deferred expenses	51	44
Total	136	184

Of the total amount of prepaid expenses, expenses to related parties as at 31 December 2020 are CZK 13 million (as at 31 December 2019: CZK 14 million).

## Liabilities arising from leases

CZK millions	31 December 2020	31 December 2019
Up to one year	5	5
More than one year but a maximum of five years	2	7
Over five years	0	0
Total undiscounted lease payables	7	12
Lease payables after taking into account the discount	7	12
Up to one year	5	5
Over one year	2	7

# 15. Equity and profit distribution

# **Registered capital**

	Par value	31 [	December 2020	31 [	December 2019
	one share (CZK)	Number of shares (pcs)	Value (in CZK millions)	Number of shares (pcs)	Value (in CZK millions)
Paid-up registered capital	239,500	10,988	2,632	10,988	2,632
Total registered capital			2,632		2,632

The shares are issued in book-entry registered form. The Central Securities Depository registers shares of the Czech Republic in the asset accounts of the Ministry of Industry and Trade, the Ministry of Regional Development and the Ministry of Finance.

The shares of the Bank's shareholders in its registered capital can be analysed as follows:

Shareholder/share in the registered capital	220 %	2019 %
Czech Republic	100.00	100.00
Total	100.00	100.00
Registration of shares of the Czech Republic in the Central Securities Depository in the asset accounts of ministries	2020 %	2019 %
Ministry of Industry and Trade of the Czech Republic	33.53	33.53
Ministry of Regional Development of the Czech Republic	33.53	33.53
Ministry of Finance of the Czech Republic	32.94	32.94
Total	100.00	100.00

## Shares in profit

In 2020 and 2019, the Bank did not pay out any shares in profit.

## **Profit distribution**

The net profit for 2019 was distributed and the profit for 2020 is proposed to be distributed as follows:

in CZK millions	2020	2019
Allocation to the social fund	13	13
Other funds created from profit	0	0
Transfer to retained earnings	11	25
Net profit	24	38

# Valuation differences

in CZK millions	2020	2019
Initial balance	116	77
Items that will not be reclassified to the Profit and Loss Account		
Change in valuation differences (equity instruments)		
Net change in fair value	0	0
Tax effect	0	0
Subtotal	0	0
Items that are, or may subsequently be, reclassified to the Profit and Loss Account		
Change in valuation differences (debt instruments)		
Net change in fair value	-80	42
Net (profit) or loss transferred to the Profit and Loss Account	0	6
Tax effect (item 22)	15	-9
Subtotal	-65	39
Change in adjustments for debt securities in FVOCI	0	0
Net change in valuation differences	-65	39
Value of valuation differences	51	116

# 16. Potential receivables and payables

# Financial guarantees, credit commitments and lines of credit provided

Commitments to provide credit, lines of credit and credit guarantees to third parties expose the Bank to credit risk and loss in the event of non-compliance by the client.

in CZK millions	31 December 2020	31 December 2019
Financial guarantees provided	43,705	24,023
Credit commitments provided	595	731
Lines of credit provided	471	500
Provision for off-balance sheet liabilities (item 11)	-3,294	-3,563
Total net value	41,477	21,691

As at 31 December 2020, lines of credit provided to related parties in the amount of CZK 300 million were recorded (as at 31 December 2019: CZK 300 million) in the form of an undrawn credit limit.

The Bank's management believes that as at 31 December 2020 and 2019, there are no liabilities arising from the performance of fiduciary duties.

## Sectoral breakdown of financial guarantees

in CZK millions	31 December 2020	31 December 2019
Credit institutions	5,433	0
Other financial institutions	55	9
Non-financial enterprises	35,153	21,291
Households	3,064	2,723
Gross value of financial guarantees	43,705	24,023

## Sectoral breakdown of credit commitments and lines of credit

in CZK millions	31 December 2020	31 December 2019
Government institutions	303	351
Other financial institutions	171	200
Non-financial enterprises	566	650
Households	26	30
Gross value of credit commitments and lines of credit	1,066	1,231

## **Financial guarantees received**

in CZK millions	31 December 2020	31 December 2019
Government institutions*	6,823	1,016
Other financial institutions	524	624
Non-financial enterprises	58	51
Gross value of financial guarantees	7,405	1,691

\* The value of guarantees received from government institutions includes the COVID III guarantee in the amount of CZK 5,433 million (as at 31 December 2019: CZK 0)

#### Collateral received and provided in REPO trades

CZK millions	31 December 2020	31 December 2019
Credits granted in reverse repo operations	3,202	1,100
Collateral received at fair value	3,138	1,077

The total value of Accepted pledges and collateral as at 31 December 2020 in the amount of CZK 6,075 million (as at 31 December 2019: CZK 4,459 million) also includes collateral received for securing credit exposures as at 31 December 2020 in the amount of CZK 2,937 million (as at 31 December 2019: CZK 3,382 million).

As at 31 December 2020 and 2019, the Bank does not record collateral received from related parties and at the same time did not provide collateral to related parties.

The Bank uses exclusively bonds and other interest-bearing securities in repo operations and reverse repo operations and operations based on collateral exchange agreements (loans and borrowings of securities). Receivables from reverse repo operations are included in receivables from banks and clients (clause 5). Liabilities from repo operations are included in payables to banks and clients (clauses 12 and 13).

As part of these transactions, the Bank accepts securities issued by the CNB and the Ministry of Finance of the Czech Republic. As part of the accepted repo credits, the Bank provides securities issued by the CNB and the Ministry of Finance of the Czech Republic.

## Asset accounts of clients with the Central Securities Depository maintained by the Bank

As part of its services, the Bank maintains asset accounts with the Central Securities Depository for the Czech Export Bank and the Ministry of Regional Development. The value of assets held with the Central Securities Depository for the Czech Export Bank is CZK 2,386 million (2019: CZK 2,524 million) and for the Ministry of Regional Development CZK 2,263 million (2019: CZK 2,263 million).

# 17. Net interest income

in CZK millions	2020	2019
Interest on interbank transactions	59	181
Interest on credits to clients	35	61
Interest on credits to government institutions	41	62
Interest on bonds	276	365
Total interest income	411	669
Interest expense on short sales of debt securities	0	3
Interest expense on short sales of debt securities Interest on interbank transactions	0 53	3 99
Interest on interbank transactions	53	99
Interest on interbank transactions Interest on deposits and credits from clients	53 23	99 40

Interest income and interest expense calculated on the basis of the effective interest rate method for the following items are as follows:

in CZK millions	2020	2019
Financial assets measured at amortised cost	229	415
Financial assets in FVOCI	179	245
Financial assets other than financial assets in FTVPL	408	660
Financial liabilities measured at amortised cost	109	280

In accordance with the applicable accounting procedures, only the penalty interest actually paid is transferred from the recorded penalty interest on non-performing credits to revenues. Recorded unpaid penalty interest in the amount of CZK 435 million (2019: CZK 471 million) was not accrued to revenues.

# 18. Fee and commission revenues and costs

in CZK millions	2020	2019
Fees and commissions from guarantees	262	228
Fees and commissions from lending activities	66	36
Fees and commissions from payments	29	30
Fees and commissions from securities transactions*	0	0
Total revenues from fees and commissions	357	294
Fees and commissions on securities transactions	2	2
Total costs of fees and commissions	2	2
Net revenues from fees and commissions	355	292

\* Fees and commissions from securities operations for 2020 in the amount of TCZK 13 (2019: TCZK 13) serve as the basis for the calculation of the contribution to the Securities Dealers' Guarantee Fund (see clause 20).

# 19. Net profit/(loss) from financial operations

in CZK millions	2020	2019
Profit/(loss) from sale of securities	9	7
Profit/(loss) from revaluation of securities	0	-16
Profit/(loss) from foreign exchange operations	-6	6
Net change in the fair value of hedging derivatives	28	2
Profit/(loss) from trading derivatives	-15	-17
Profit/(loss) from FA mandatorily reported in profit/loss	1	9
Net creation of adjustments for securities in FVOCI	0	1
Total	17	-8

Because of the high effectiveness of hedging, the net change in the fair value of hedging derivatives is almost fully offset in the Profit and Loss Account in the line Profit/(loss) from foreign exchange operations (currency risk hedging) and in the lines Interest income and Interest expense (interest rate hedging).

in CZK millions	2020	2019
Profit and loss from securities	9	-8
- Debt securities at amortised cost	8	1
– Debt securities in FVOCI	0	7
- Amounts transferred from comprehensive income	0	6
– Net creation of adjustments	0	1
- Change in fair value of trading securities	3	5
- Change in fair value of securities charged to costs or revenues	-2	-8
– Short sales of securities	0	-13
Profit/loss from financial assets mandatorily recognised at fair value	1	9
Profit/loss from trading derivatives	-15	-17
Net change in the fair value of hedging derivatives	28	2
Profit/loss from foreign exchange operations	-6	6
Total	17	-8

In 2020, the total accounting inefficiency of hedging was CZK 0 million (2019: CZK 2 million).

# 20. Other operating costs

Of the total amount of other operating costs, the contribution paid in 2020 to:

- the Crisis Resolution Fund is CZK 17 million (in 2019: CZK 14 million). Simultaneously with the payment, the provision created in the amount of CZK 17 million was used (clause 11); the excess provision in the amount of CZK 3 million was released because of redundancy;
- the Deposit Insurance Fund is CZK 0.5 million (in 2019: CZK 1 million). Simultaneously with the payment, the provision created in the amount of CZK 0.5 million was used (clause 11);
- the Securities Dealers' Guarantee Fund is CZK 0.01 million (2019: CZK 0.01 million).

# 21. Administrative costs

in CZK millions	2020	2019
Remuneration of management and supervisory bodies*	17	15
Management wages and salaries*	36	30
Wages and salaries of other employees	154	135
Social security and health insurance	69	60
Other staff costs	10	8
Audit, legal and tax advice	24	14
Rent and related costs	0	1
Short-term leases	0	0
Low-value leases	0	0
Other administrative costs	78	63
Total	388	326

\* Part of the remuneration has a deferred payment

## **Employee statistics**

	2020	2019
Average number of members of the Supervisory Board	6	5
Average number of members of the Audit Committee	3	3
Average number of members of the Board of Directors	2	3
Average number of members of the management	18	16
Average number of other employees	208	194

The Bank's management includes: directors of headquarters departments, branch directors and heads of the Independent Internal Audit Department.

## Costs of remuneration paid to the statutory auditor on an accrual basis

in CZK millions	2020	2019
Mandatory audit of financial statements	1.5	1.8
Tax consultation	0.9	0.7
Other audit services	1.0	0.4
Total	3.4	2.9

The statutory auditor also provided a company controlled by the Bank with an optional audit of the financial statements in the amount of CZK 0.3 million (2019: 0 million).

# 22. Income tax

in CZK millions	2020	2019
Profit before tax	24	105
Non-taxable revenues	-1,121	-966
Non-deductible costs	956	1,217
Other items reducing/increasing the tax base	-1	0
Tax base	0	356
Corporate income tax payable (19%)	0	68
Income tax – deferred (19%)	1	-1
Overpayment of income tax from previous years	-1	0
Total income tax	0	67

## **Deferred taxes**

The recorded deferred tax can be analysed as follows:

in CZK millions	31 December 2020	31 December 2019
Other provisions and adjustments	13	12
The difference between the book value and the tax base of an asset	-1	-1
Tax effect of revaluation of securities to fair value in equity	-11	-26
Total deferred taxes	1	–15
Deferred tax status as of 1 January	-15	-6
Movement through the Profit and Loss Account	1	1
Movement through equity	15	-10
Deferred tax status as of 31 December	1	-15

# 23. Classification of financial assets and financial liabilities

The table below provides a reconciliation between Balance Sheet items and the valuation categories of financial instruments:

31 December 2020 in CZK millions	Clause of the Notes	Manda- torily in FVTPL	Deter- mined in FVTPL	FVOCI – debt instruments	FVOCI – asset instruments	Amor- tised cost	Total
Cash on hand and deposits at central banks	3	0	0	0	0	6	6
Government zero-coupon bonds and other securities for refinancing accepted by the central bank	4	0	0	11,007	0	7,161	18,168
Receivables from banks	5	0	0	0	0	3,205	3,205
Receivables from clients	6	6	0	0	0	6,963	6,969
Debt securities	7	0	0	1,294	0	0	1,294
Shares, share certificates and other shares	8	0	0	0	35	0	35
Participating interests with significant influence	8	0	0	0	0	1	1
Participating interests with decisive influence	8	0	0	0	0	4	4
Other assets	10	0	39	0	0	60	99
Total financial assets		6	39	12,301	35	17,400	29,781

### Notes to the unconsolidated Financial Statements in accordance with the Czech accounting regulations as at 31 December 2020

31 December 20219 in CZK millions	Clause of the Notes	Manda- torily in FVTPL	Deter- mined in FVTPL	FVOCI – debt instruments	FVOCI – asset instruments	Amor- tised cost	Total
Cash on hand and deposits at central banks	3	0	0	0	0	21	21
Government zero-coupon bonds and other securities for refinancing accepted by the central bank	4	0	0	9,907	0	5,592	15,499
Receivables from banks	5	0	0	0	0	1,133	1,133
Receivables from clients	6	18	0	0	0	5,423	5,441
Debt securities	7	0	158	1,462	0	0	1,620
Shares, share certificates and other shares	8	0	0	0	34	0	34
Participating interests with significant influence	8	0	0	0	0	1	1
Participating interests with decisive influence	8	0	0	0	0	4	4
Other assets	10	0	28	0	0	30	58
Total financial assets		18	186	11,369	34	12,204	23,811

31 December 2020 in CZK millions	Clause of the Notes	Manda- torily in FVTPL	Deter- mined in FVTPL	FVOCI – debt instruments	FVOCI – asset instruments	Amor- tised cost	Total
Payables to banks	12	0	0	0	0	942	942
Payables to clients	13	0	0	0	0	20,706	20,706
Other liabilities and deferred expenses	14	0	12	0	0	52	64
Total financial liabilities		0	12	0	0	21,700	21,712

31 December 2019 in CZK millions	Clause of the Notes	Manda- torily in FVTPL	Deter- mined in FVTPL	FVOCI – debt instruments	FVOCI – asset instruments	Amor- tised cost	Total
Payables to banks	12	0	0	0	0	1,410	1,410
Payables to clients	13	0	0	0	0	13,736	13,736
Other liabilities and deferred expenses	14	0	31	0	0	76	107
Total financial liabilities		0	31	0	0	15,221	15,252

# 24. Information on risk management and financial instruments

## a) Credit risk

## Credit rating of the debtor

In the case of small and medium-sized entrepreneurs, as well as in that of municipalities, water management companies, housing cooperatives, associations of housing unit owners and non-profit organisations, the credit assessment is performed in accordance with the Bank's internal regulations and is based on the client's creditworthiness assessment resulting from economic and non-economic analysis. Non-economic evaluation includes analysis of external and internal factors that affect the client's activities. The economic evaluation is based on a financial analysis performed on the basis of economic indicators and additional information.

The creditworthiness assessment is performed for each credit risk transaction at the initial assessment and the credit risk assessment is performed regularly throughout the duration of the credit transaction, usually at regular quarterly intervals. As part of its regular credit risk assessment, the Bank focuses mainly on information on payment history obtained from the Central Credit Register and also on information resulting from the analysis and

financial analysis of financial reports regularly sent by the clients that document their economic situation.

For the credit assessment of a debtor, the Bank uses its own internally developed rating tool, which is based on the principle of the synthesis of economic and non-economic information about the client.

The Bank regularly updates its rating tool with relevant risk-free rates and surcharges in connection with the line of business and other parameters. The rating tool and its principles are documented in the Bank. The rating tool serves as an aid to the analyst's decision.

The credit risk is expressed by assigning the client to the relevant risk category. The credit risk in a specific case is regulated by setting contractual terms, including trade collateral.

The Bank determines the riskiness of individual clients in the segment of small and medium-sized entrepreneurs on the basis of an analysis of the client's financial situation and evaluation of non-economic aspects (e.g. management experience, management qualifications, market position). The Bank generally classifies clients into ten basic risk categories according to the internal rating assigned to individual clients.

For transactions concluded on financial markets and for issuers of securities, the client's creditworthiness rating is based on a rating from internationally renowned rating agencies, as well as an assessment of economic and non-economic aspects. Standard and Poor's, Moody's and Fitch Ratings are considered renowned agencies. The creditworthiness of counterparties and issuers is regularly reassessed throughout the duration of the business credit relationship. The frequency of the reassessment depends on the risk category of counterparties and issuers.

## Portfolio credit risk measurement

The Bank analyses the loss of products in individual years and determines the rate of actual losses on portfolios closed in individual years. The Bank monitors the loss-making of its guarantee and credit portfolio according to individual product classes, as well as according to annual tranches. The results of the analyses are regularly presented to the Bank's management as a basis for decision making in the areas of credit risk.

The Bank mainly analyses the following segments of its products: infrastructure and municipal credits, credits to small and medium-sized entrepreneurs and individual guarantees to small and medium-sized entrepreneurs.

#### **Expected credit losses**

# Inputs, assumptions and techniques used in determining impairment

Credit risk rating grades are the basic input in creating a PD curve for credit exposures over time. The Bank collects performance and default information about its credit and guarantee exposures. The Bank uses statistical models to analyse the data obtained and to create PD curves and their course depending on the period remaining to maturity of the exposures (time structure) and to determine their expected changes over time.

A significant increase in credit risk is objectively determined, mainly on the basis of a change in the client's internal rating.

In addition to the internal rating, additional default indicators can be used to indicate a significant increase in credit risk:

Market information:

- actual or expected significant adverse changes in the debtor's regulatory, economic or technological environment, resulting in a significant change in the debtor's ability to meet its debt liabilities,
- significant negative information from the market,
- the sector is facing structural competitive challenges,
- the sector is facing serious challenges related to environmental protection, public health, etc.
- substantial change in the legal regulation of the sector,
- entry of a strong new competitor.

Economic environment/Sector:

- the sector is facing structural competitive challenges,
- the sector is facing serious challenges related to environmental protection, public health, etc.
- substantial change in the legal regulation of the sector,
- entry of a strong new competitor.

Transaction behaviour:

- material fines from the tax or other authority, or
- investigations for tax cuts or similar levies,
- disruption, interruption or cessation of business,
- new major litigation.

Quality and checking of collateral:

- significant changes in the value of the collateral securing the liability in question,
- negative change in the status and enforceability of the collateral, e.g.:
  - a significant insured event on a key credit collateral
  - a defect in the legal documentation that affects the enforceability
  - expiry of insurance
  - inability to exercise control over assets (flows)
  - unreliable valuation, etc.

The Bank determines a significant increase in the credit risk on the basis of the consideration and assessment of adequate and verifiable information and factors that are available without incurring disproportionate costs or effort to indicate future prospects. For the purposes of calculating expected losses, the Bank divides exposures into three levels. Level 1 and level 2 are credits and guarantees without default. In level 2, there are credits and guarantees for which a significant increase in the credit risk has been recorded since their inception. In level 3, the credits and guarantees are non-performing.

## Calculation of expected credit losses

The key inputs for the calculation of expected credit losses (ECL) are the time structures of the following variables/ parameters:

- probability of default (PD);
- loss given by default (LGD);
- exposure at default (EAD).

These parameters are derived from our own internally developed statistical models and historical data, which need to be adjusted to match the information about future prospects (FLI).

The economic situation in the Czech Republic in 2020 was significantly affected by the coronavirus pandemic and the associated significant decline in the economic performance of the entire economy, which of course had a significant negative impact on the portfolio of bank guarantees and credits.

Given the significant concentration of banking products in the SME segment, it is necessary to take into account the relatively significant correlation between the growth/decline of domestic and European GDP and the performance of the SME sector. The unique situation that arose in 2020 in the context of nation-wide lockdowns in a number of sectors causes possible inaccuracies in the standard FLI estimation models used by the Bank in the past, exacerbated by the difficulty the Bank's usual clients had in delivering adequate and relevant performance information that the Bank normally takes into account in its internal rating.

FLI "management adjustment" is used across the entire portfolio and amounts to approximately 16% of the total OP volume for Stages 1 and 2; with regard to a certain information asymmetry resulting from the specifics of the Bank's products, SME banking clients and especially the difficult economic situation in the Czech Republic and Europe, the FLI "management adjustment" for 2020 is an important and necessary element of the risk management system and at the same time the long-term stability of the Bank.

PD estimates are point-in-time estimates that are calculated on the basis of statistical models and rating tools tailored to different categories of counterparties and exposures. These statistical models are based on internally obtained data, including both quantitative and qualitative factors. If available, market data can also be used to determine the PD for large corporate counterparties. If a counterparty or exposure is shifted between rating grades, then this leads to a change in the estimate of the relevant PD. LGD represents the amount of probable loss if a default occurs. The Bank estimates LGD parameters on the basis of the historical recovery yield from debtors in default.

LGD models take into account collateral, subordination of receivables, counterparty sector and debt collection costs.

The calculation is performed on the basis of discounted cash flows using the effective interest rate as a discount factor, except for exposures in the SME segment, where the EIR is 0. The reason for this procedure is the fact that the Bank provides privileged guarantees and credits to clients at a zero rate, which corresponds to the standard market conditions of development and guarantee institutions.

The EAD represents the expected credit exposure at the time of default. The Bank determines the EAD on the basis of the current exposure to the given counterparty and possible changes in the current exposure on the basis of a contract concluded with the counterparty, including regular and early repayments.

The EAD of a financial asset is its gross book value. For credit commitments and financial guarantees, the EAD includes the amount drawn, as well as possible future drawdowns that may occur on the basis of the concluded contract. These future drawdowns are estimated on the basis of historical experience and forecasts of future prospects. For some financial assets, the EAD is determined by modelling the range of possible resulting exposures at different future times using scenarios and statistical methods.

#### Method for calculating provisions for M-guarantees

In the case of portfolio M-guarantees, the credit risk is divided between the lending banks and ČMZRB and its amount is precisely limited by the maximum possible performance of the bank guarantee within the individual aid programmes. The exact amount of the total possible payments from the portfolio of issued bank guarantees, for which the Bank creates provisions or funds to cover risks in full, is contractually agreed with the lending banks.

For 2020, the Bank undertook a reclassification between Stage 1 and Stage 2 in the area of M-guarantees, which was based on a sectoral approach in relation to the identification of sectors whose performance had suffered in connection with restrictive measures applied in the fight against the coronavirus pandemic. The transfer of the relevant positions to Stage 2 reflects an increase in the credit risk level for individual business cases for which the Bank did not have sufficiently reliable information on an individual basis and the Bank considers it to be correct from the point of view of risk management.

#### Securing credit and guarantee receivables

Movable and immovable pledges are recorded in the accounts and are valued on the basis of an expert's opinion (par value of collateral). For real estate, the Bank performs central revaluations to market prices when market conditions change on the basis of price maps prepared by an external

agency. The Bank keeps the liabilities of natural persons and legal entities and bills of exchange in its records and they are valued at the values set by the Bank's internal regulations.

The realisable value of collateral takes into account the costs of realisation of collateral, including the time value of money. If the client has an overdue balance sheet receivable of more than 360 days, the Bank does not take into account the amount of collateral.

#### **Recovery of receivables from debtors**

The Bank recovers due receivables from bank guarantees and credits in its own system of risk-based business case management using all legal instruments in accordance with generally applicable legal regulations. To speed up the recovery process, it works with an arbitration clause on credit and guarantee agreements and with enforceable entries.

Soft loans and privileged guarantees within the Operational Programme Enterprise and Innovation (OPEI)

The Bank ensures, at its own expense, the recovery of receivables for the return of state aid as well as possible receivables from a guarantee or a credit provided under the Operational Programme Enterprise and Innovation (OPEI). After the payment of the receivable or after its settlement to the debit of the programme funds in the event of its irrecoverability, the receivable is derecognised from the accounting, and the loss exceeding the agreed share of drawn credits or the amount of funds in the risk coverage accounts in the case of guarantees is covered by the Bank.

Soft loans under the Operational Programme Enterprise and Innovations for Competitiveness (OP EIC)

Since 1 June 2017, the Bank has been providing soft loans in the Expansion programme and since 19 September 2017 also soft loans in the Energy Savings programme within the Operational Programme Enterprise and Innovations for Competitiveness. The loans are financed from a loans fund created from the European Structural and Investment Funds.

The credits are provided as interest-free with deferred repayments. A financial contribution for the payment of interest is provided for selected credits, which serves the ultimate beneficiaries for the partial or full payment of interest on a commercial credit drawn for the implementation of an aided project. In the case of the Energy Savings programme, clients are also provided with a financial contribution to cover the costs of the energy assessment.

#### Preferential loans under the ENERG programme

Since 1 June 2017, the Bank has been providing preferential loans in the national ENERG programme. The loans are financed from a loan fund created from the state budget.

The credits are provided as interest-free with deferred repayments. A financial contribution is provided for the credits for achieving the results of the project and a financial contribution to cover the costs of the energy assessment.

#### Preferential loans under the INFIN programme

Since 2018, the Bank has been providing preferential loans in the INFIN programme. The INFIN programme offers small and medium-sized entrepreneurs soft loans to finance innovative business projects in the City of Prague.

The programme is financed from the ESI Funds within the Operational Programme Prague – Growth Pole of the Czech Republic. The loans are provided as interest-free with deferred repayments.

# Preferential loans from the Ministry of Labour and Social Affairs – S-enterprise

Since 2020, the Bank has been providing preferential loans for Social Entrepreneurship (S-enterprise) from the MoLSA Loan Fund. The S-enterprise programme funds finance soft loans for social enterprises, for which it is often difficult, if not impossible, to meet the requirements of financial institutions. The credits are provided as interest-free with deferred repayments. The programme is funded by the ESI Funds.

#### **COVID I loan programme**

In connection with the COVID-19 pandemic, the Bank provided a COVID I preferential loan for small and mediumsized enterprises in 2020 in accordance with the decision of the Government of the Czech Republic. The aim of this loan was to facilitate access to operational financing for small and medium-sized enterprises. The loan could be used for the acquisition of small tangible and intangible assets, for the acquisition and financing of inventories and for other working capital expenses.

# Preferential guarantees in national guarantee programmes

In the period from 2009 to 2019, the Bank provided privileged guarantees in programmes announced by the Ministry of Industry and Trade to support small and medium-sized enterprises. The products were financed from the funds of guarantee funds created with the participation of state budget funds and from funds revised within other business support programmes and, since 2012, also from the Bank's own funds.

#### Preferential guarantees in the EXPANSION programme

Since March 2019, the Bank has been providing privileged guarantees in the EXPANSION programme. These guarantees are financed from the European Structural and Investment Funds under the Operational Programme Enterprise and Innovations for Competitiveness.

#### COVID guarantee programmes

In connection with the COVID-19 pandemic, in 2020 the Bank introduced the COVID II, COVID Prague and COVID III guarantee programmes in accordance with the decision of the Government of the Czech Republic. The COVID II guarantee programme served to facilitate the access of self-employed persons and small and mediumsized entrepreneurs affected by the pandemic to operational financing in the form of a commercial credit guarantee. The programme is financed from the EU structural funds and is not intended to finance projects in the City of Prague.

The COVID Prague guarantee programme was prepared by the Bank in cooperation with the City of Prague. The aim of this guarantee programme was to facilitate access to operational financing for self-employed persons and small and medium-sized entrepreneurs active within the territory of the City of Prague who were affected by the pandemic. The programme is financed from the Operational Programme Prague – Growth Pole.

The aim of the COVID III guarantee programme was to aid entrepreneurs affected by the coronavirus pandemic and related preventive measures through guarantees for operating bank credits. This programme covered entrepreneurs with up to 500 employees.

The Bank ensures, at its own expense, the recovery of receivables from performance under guarantees and from sanctions for breaches of the terms of the guarantee agreements. After the payment of the receivable or after its settlement to the debit of the programme funds in the event of its irrecoverability, the receivable is removed from the Bank's accounting. Losses in excess of the funds in the risk coverage accounts are covered by the Bank.

#### **Risk concentration**

The Bank considers it a significant concentration of risk if unreasonable concentrations of exposures to variously related persons or groups of persons or to persons from the same industry, geographical area or the same activity could cause a significant impact on the Bank's operations and stability in the event of adverse developments. The risks in the Bank are concentrated primarily in the area of privileged guarantees for SME credits and credits for repairs of apartment buildings, soft loans provided by the Bank to small and medium-sized entrepreneurs and the Bank's credits for business entities and municipalities for water management projects.

Most of these credits and guarantees are provided in cooperation with the state administration, and since the state participates in covering some of the risks in some transactions, the risk is spread over several entities. The Bank manages concentration risk in relation to the rules for credit exposure and through a system of limits for credit risk management. To determine the concentration of credit risk, the Bank mainly uses methods and procedures based on the analysis of data stored in the Bank's internal business and accounting system. The Bank does not use any hedging derivatives to eliminate these risks. These risks are monitored periodically.

#### **Financial market instruments**

In accordance with internal regulations, the Bank defines financial instruments in which it can invest and with which it can manage currency and interest rate risks. These are mainly deposits, bonds (mortgage bonds, Czech crown bonds, foreign currency bonds and Eurobonds), bills of exchange, derivatives (forex operations – FX, cross-currency swaps – CCS and interest rate swaps – IRS). The credit rating of counterparties and issuers is based on the rating of the client's creditworthiness, which results from a rating from internationally renowned rating agencies and an assessment of economic and non-economic aspects. The creditworthiness of counterparties and issuers is regularly reassessed throughout the duration of the business credit relationship.

### Quality of the securities portfolio

Portfolio of securities by individual rating grades and broken down by individual groups of financial assets:

## 31 December 2020

in CZK millions	AA- to AA+	A- to A+	Lower than A	Total
Securities valued through profit or loss	0	0	0	0
Equity instruments in FVOCI	0	0	35	35
Debt instruments in FVOCI	11,900	401	0	12,301
Securities at amortised cost	7,161	0	0	7,161
Total	19,061	401	35	19,497

#### 31 December 2019

in CZK millions	AA- to AA+	A- to A+	Lower than A	Total
Securities valued through profit or loss	0	158	0	158
Equity instruments in FVOCI	0	0	34	34
Debt instruments in FVOCI	10,824	0	545	11,369
Securities at amortised cost	5,592	0	0	5,592
Total	16,416	158	579	17,153

# Quality of the derivatives portfolio

The portfolio of derivatives as at 31 December 2020 and 2019 consists of transactions with trustworthy bank counterparties (with an external rating in the range from AA+ to A).

## Breakdown of assets by geographical segments

## 31 December 2020

in CZK millions			Adjustments and	
Assets	Czech Republic	European Union	accumulated depreciation	Total CZK millions
Cash and deposits with central banks	6	0	0	6
Receivables from banks	3,206	0	-1	3,205
Receivables from clients	7,714	0	-745	6,969
Securities valued through profit or loss	0	0	0	0
Debt instruments in FVOCI	11,629	672	0	12,301
Securities at amortised cost	7,163	0	-2	7,161
Financial derivatives	9	0	0	9
Equity instruments in FVOCI	0	35	0	35
Participating interests with significant influence	1	0	0	1
Participating interests with decisive influence	4	0	0	4
Other financial assets	73	30	-13	90
Total financial assets	29,805	737	-761	29,781
Other non-financial assets	869	0	-593	276
Total	30,674	737	-1,354	30,057

# 31 December 2019

in CZK millions			Adjustments and	
Assets	Czech Republic	European Union	accumulated depreciation	Total CZK millions
Cash and deposits with central banks	21	0	0	21
Receivables from banks	1,133	0	0	1,133
Receivables from clients	5,704	0	-263	5,441
Securities valued through profit or loss	0	158	0	158
Debt instruments in FVOCI	10,536	833	0	11,369
Securities at amortised cost	5,594	0	-2	5,592
Financial derivatives	5	0	0	5
Equity instruments in FVOCI	0	34	0	34
Participating interests with significant influence	1	0	0	1
Participating interests with decisive influence	4	0	0	4
Other financial assets	41	23	-11	53
Total financial assets	23,039	1,048	-276	23,811
Other non-financial assets	745	0	-573	172
Total	23,784	1,048	-849	23,983

# Maximum credit risk exposure

## 31 December 2020

in CZK millions	Balance Sheet	Off-Balance Sheet	Exposure to credit risk in total	Accepted collateral
Cash on hand and deposits with central banks	6	0	6	0
Receivables from banks	3,205	0	3,205	3,138
Securities valued through profit or loss	0	0	0	0
Financial derivatives	9	0	9	0
Receivables from clients*	6,969	1,066	8,035	1,891
Equity instruments in FVOCI	35	0	35	0
Debt instruments in FVOCI	12,301	0	12,301	0
Securities at amortised cost	7,161	0	7,161	0
Participating interests with significant influence	1	0	1	0
Participating interests with decisive influence	4	0	4	0
Other financial assets	90	0	90	0
Financial guarantees	0	43,705	43,705	0
Total financial assets	29,781	44,771	74,552	5,029
Non-financial assets	276			
Total assets	30,057			

\* The value of collateral received is reported only up to the amount of the credit exposure

# 31 December 2019

in CZK millions	Balance Sheet	Off-Balance Sheet	Exposure to credit risk in total	Accepted collateral
Cash on hand and deposits with central banks	21	0	21	0
Receivables from banks	1,133	0	1,133	1,077
Securities valued through profit or loss	158	0	158	0
Financial derivatives	5	0	5	0
Receivables from clients*	5,441	1,231	6,672	1,378
Equity instruments in FVOCI	34	0	34	0
Debt instruments in FVOCI	11,369	0	11,369	0
Securities at amortised cost	5,592	0	5,592	0
Participating interests with significant influence	1	0	1	0
Participating interests with decisive influence	4	0	4	0
Other financial assets	53	0	53	0
Financial guarantees	0	24,023	24,023	0
Total financial assets	23,811	25,254	49,065	2,455
Non-financial assets	172			
Total assets	23,983			

\* The value of collateral received is reported only up to the amount of credit exposure. The amount of collateral provided is stated in clause 6 Receivables from clients.

in CZK millions	2020	2019		
Less than 50%	30	25		
51–70%	20	2		
More than 70%	264	289		
Total	314	316		

# Quantitative information on collateral for credit-impaired financial assets (level 3)

#### Overview of restructured receivables

Year	Amount in CZK millions*	Number of receivables
2020	87	31
2019	63	38

\* The data is presented including interest on arrears recorded in the off-balance sheet.

#### b) Market risk

## **Characteristics of market risks**

The basic market risk management strategy is set out in internal regulations and documents approved by the Bank's Board of Directors.

#### Characteristics of operations related to market risk

The Bank is exposed to market risks of loss in the purchase, holding and sale of investment instruments defined in the ČMZRB Investment Strategy. This risk arises from open positions in interest rates and currencies. The Bank applies a conservative approach to currency risk. The Bank is not interested in having open positions in foreign currencies, and it fulfils this strategy by using currency forwards and cross-currency swaps, which it enters into in order to close currency positions arising from the purchase of foreign currency bonds or the acceptance of foreign currency credits.

#### Market risk measurement

To measure the interest rate risk, the Bank uses the basic methods (interest rate GAP analysis, duration, interest rate elasticity) and methods for calculating capital ratios set by the Regulation of the European Parliament and of the Council (EU), as amended.

Furthermore, the Bank has set internal limits limiting the market risk. Interest rate GAP analysis measures the interest rate risk of the trading and investment portfolio together and is restricted by limits for the net interest rate position in each time zone. The interest rate risk of all bond portfolios is restricted by the limits on the interest rate risk of bond portfolios. The Bank performs stress testing on a quarterly basis in accordance with Decree No. 163/2014 Coll., as amended.

#### Market risk management

The market risk management tool is an external capital ratio limit and internal limits for interest rate change risk and for the interest rate elasticity of the bond portfolio. Furthermore, the market risk is limited by the internal capital ratio limit. The currency risk is limited by the limits set out in the Regulation of the European Parliament and of the Council (EU), as amended.

The limits for the risk of changes in the interest rate limit the size of the interest rate GAP in each time zone of the interest rate GAP analysis in relation to the Bank's capital and are expressed in %.

The interest rate risk limits on bond portfolios limit the market risk of portfolios of bonds measured at fair value through profit or loss and realised bonds together and portfolios of bonds held to maturity and not held for trading together. The methods for calculating these limits are based on the principles of duration analysis (e.g. the limit on interest rate elasticity).

The internal capital ratio limit tightens the external capital ratio limit set by the banking regulator.

The Bank uses collateral to manage market risk. Hedge accounting was used for parts of the hedging in accordance with accounting regulations. The Bank primarily hedges the currency risk of foreign currency liabilities represented by loans from development banks and the currency risk of foreign currency assets, which mainly represent investments in foreign currency available-for-sale securities. In certain cases, the Bank also hedges the interest rate risk related to loans from development banks.

All derivatives are negotiated on the over-the-counter market.

# **Financial derivatives**

## Derivatives held for trading

	31 December 2020		31 December 2019		
	Par valu	ie	Par value		
in CZK millions	Receivable	Payable	Receivable	Payable	
Interest rate derivatives					
Swaps	200	200	200	200	
Currency derivatives					
Swaps	349	342	599	603	
Total	549	542	799	803	

	31 Decembe	er 2020	31 December 2019 Fair value		
	Fair val	ue			
in CZK millions	Positive Negative		Positive	Negative	
Interest rate derivatives					
Swaps	0	5	0	2	
Currency derivatives					
Swaps	9	7	5	18	
Total	9	12	5	20	

Maturity of trading derivatives as at 31 December 2020:

in CZK millions	up to 3 months	from 3 months – 1 year	1 year – 5 years	over 5 years	Total
Interest rate swaps	0	200	0	0	200
Currency swaps	48	5	206	90	349
Total	48	205	206	90	549

Maturity of trading derivatives as at 31 December 2019:

in CZK millions	up to 3 months	from 3 months – 1 year	1 year - 5 years	over 5 years	Total
Interest rate swaps	0	0	200	0	200
Currency swaps	0	145	292	162	599
Total	0	145	492	162	799

# **Hedging derivatives**

	31 Decembe	r 2020	31 December 2019		
	Par valu	ie	Par value		
in CZK millions	Receivable Payable		Receivable	Payable	
Currency derivatives					
Cross-currency swaps	0	0	59	67	
Total	0	0	59	67	

	31 Decembe	er 2020	31 December 2019		
	Fair val	ue	Fair va	lue	
in CZK millions	Positive Negative		Positive	Negative	
Currency derivatives					
Cross-currency swaps	0	0	0	11	
Total	0	0	0	11	

Splatnost zajišťovacích derivátů k 31. prosinci 2020:

	up to 3	from 3 months	1 year	over 5	
in CZK millions	months		– 5 years	years	Total
Cross-currency swaps	0	0	0	0	0
Total	0	0	0	0	0

Splatnost zajišťovacích derivátů k 31. prosinci 2019:

in CZK millions	up to 3 months	from 3 months – 1 year	1 year – 5 years	over 5 years	Total
Cross-currency swaps	0	3	56	0	59
Total	0	3	56	0	59

# d) Currency risk

The Bank's financial position and cash flows are exposed to the risk of fluctuations in the exchange rates of common currencies. Currency position values are available daily. In the event that the limits are exceeded, the Bank shall proceed in accordance with internal regulations.

# 31 December 2020

in CZK millions	EUR	СZК	Total
Cash on hand and deposits with central banks	0	6	6
Receivables from banks	3	3,202	3,205
Receivables from clients	561	6,408	6,969
Securities valued through profit or loss	0	0	0
Debt instruments in FVOCI	126	12,175	12,301
Securities at amortised cost	0	7,161	7,161
Financial derivatives	0	9	9
Equity instruments in FVOCI	35	0	35
Participating interests with significant influence	0	1	1
Participating interests with decisive influence	0	4	4
Other financial assets	30	60	90
Total financial assets	755	29,026	29,781
Other non-financial assets	0	276	276
	755	29,302	30,057
Payables to banks	942	0	942
Payables to clients	113	20,593	20,706
Financial derivatives	0	12	12
Other financial liabilities	0	52	52
Total financial liabilities	1,055	20,657	21,712
Other non-financial liabilities	0	158	158
Provisions	0	3,311	3,311
Equity	4	4,872	4,876
	1,059	28,998	30,057
Net balance sheet position	-304	_	-
Net off-balance sheet position	349	_	-
Net position	45	_	_

# 31 December 2019

in CZK millions	EUR	СZК	Total
Cash on hand and deposits with central banks	0	21	21
Receivables from banks	7	1,126	1,133
Receivables from clients	815		
	158	4,626	5,441
Securities valued through profit or loss		0	158
Debt instruments in FVOCI	177	11,192	11,369
Securities at amortised cost	0	5,592	5,592
Financial derivatives	0	5	5
Equity instruments in FVOCI	34	0	34
Participating interests	0	5	5
Other financial assets	23	30	53
Total financial assets	1,214	22,597	23,811
Other non-financial assets	0	172	172
	1,214	22,769	23,983
Payables to banks	1,329	81	1,410
Payables to clients	191	13,545	13,736
Financial derivatives	0	31	31
Other financial liabilities	0	76	76
Total financial liabilities	1,520	13,733	15,253
Other non-financial liabilities	0	218	218
Provisions	0	3,583	3,583
Equity	6	4,923	4,929
	1,526	22,457	23,983
Net balance sheet position	-312	_	-
Net off-balance sheet position	361	-	_
Net position	49	_	-

#### Currency risk sensitivity analysis

The table below provides an analysis of currency risk sensitivity. The foreign currency items of the Balance Sheet were tested with regard to an increase in the exchange rate by 10% (10% appreciation of currencies would have the same and opposite effect). The open position in EUR is hedged using derivatives. Hedging instruments almost completely offset the open position (see the tables above) and therefore the impact of exchange rate movements on the Profit and Loss Account and equity is not significant. As the euro was the only significant currency in which the Bank had an open position at the end of the year, the table below summarises the sensitivity of the Czech crown compared to the CZK/EUR exchange rate applicable on 31 December 2020 and 2019.

in CZK millions	2020	2019
Sensitivity to changes in the EUR exchange rate		
Expected rate fluctuation, %	10%	10%
Open position	87	48
Effect on the Profit and Loss Account	-7	-16
Effect on capital	13	18

## e) Interest rate risk

The Bank's intention is to manage the interest rate risk arising from changes in interest rates through gap analysis between assets and liabilities in individual groups.

The table below provides information on the extent to which the Bank is exposed to interest rate risk. It is based either on the contractual maturity of the financial instruments or, if the interest rate of these instruments changes before the maturity date, on the date of the determination of the new interest rate.

In the case of a transaction that does not carry information about the contractual maturity or change in the rate, the volume is shown in the "Not specified" column. The Not specified column also includes changes in the fair values of hedged balance sheet items resulting from the interest rate risk.

## 31 December 2020

in <b>C</b> 714 millions	Up to 3	3–12	1 to 5	Over	Not	
in CZK millions	months	months	years	5 years	specified	Total
Cash and deposits with central banks	5	0	0	0	1	6
Receivables from banks	3,205	0	0	0	0	3,205
Receivables from clients*	205	1,396	3,760	993	615	6,969
Securities valued through profit or loss	0	0	0	0	0	0
Debt instruments in FVOCI	159	661	7,170	4,311	0	12,301
Securities at amortised cost	0	207	2,645	4,309	0	7,161
Financial derivatives	0	0	0	0	9	9
Equity instruments in FVOCI	0	0	0	0	35	35
Participating interests with significant influence	0	0	0	0	1	1
Participating interests with decisive influence	0	0	0	0	4	4
Other financial assets	0	0	0	0	90	90
Total financial assets	3,574	2,264	13,575	9,613	755	29,781
Tangible fixed assets	0	0	0	0	126	126
Intangible fixed assets	0	0	0	0	48	48
Other non-financial assets	0	0	0	0	102	102
Total assets	3,574	2,264	13,575	9,613	1,031	30,057
Payables to banks	181	335	394	26	6	942
Payables to clients	3,578	6,418	4,439	6,270	1	20,706
Financial derivatives	0	0	0	0	12	12
Other financial liabilities	0	0	0	0	52	52
Total financial liabilities	3,759	6,753	4,833	6,296	71	21,712
Other non-financial liabilities	0	0	0	0	158	158
Provisions	0	0	0	0	3,311	3,311
Equity	0	0	0	0	4,876	4,876
Total liabilities and equity	3,759	6,753	4,833	6,296	8,416	30,057
Net balance sheet position	-185	-4,489	8,742			

\* The "not specified" column in the line "Receivables from clients" shows receivables in STAGE 3 and POCI reduced by total adjustments.

# 31 December 2019

	Up to 3	3–12	1 to 5	Over	Not	
in CZK millions	months	months	years	5 years	specified	Total
Cash and deposits with central banks	17	0	0	0	4	21
Receivables from banks	1,132	0	0	0	1	1,133
Receivables from clients*	205	589	3,015	820	812	5,441
Securities valued through profit or loss	0	158	0	0	0	158
Debt instruments in FVOCI	57	255	7,171	3,886	0	11,369
Securities at amortised cost	0	604	844	4,144	0	5,592
Financial derivatives	0	0	0	0	5	5
Equity instruments in FVOCI	0	0	0	0	34	34
Participating interests	0	0	0	0	5	5
Other financial assets	0	0	0	0	53	53
Total financial assets	1,411	1,606	11,030	8,850	914	23,811
Tangible fixed assets	0	0	0	0	141	141
Intangible fixed assets	0	0	0	0	21	21
Other non-financial assets	0	0	0	0	10	10
Total assets	1,411	1,606	11,030	8,850	1,086	23,983
Davables to banks	287	369	723	49	-17	1 /10
Payables to banks				48		1,410
Payables to clients	9,843	0	0	0	3,893	13,736
Financial derivatives	0	0	0	0	31	31
Other financial liabilities	0	0	0	0	76	76
Total financial liabilities	10,130	369	723	48	3,983	15,253
Other non-financial liabilities	0	0	0	0	218	218
Provisions	0	0	0	0	3,583	3,583
Equity	0	0	0	0	4,929	4,929
Total liabilities and equity	10,130	369	723	48	12,713	23,983
Net balance sheet position	-8,719	1,237	10,307	8,802	-11,627	0

\* The "not specified" column in the line "Receivables from clients" shows receivables in STAGE 3 and POCI reduced by total adjustments.

#### Interest rate sensitivity analysis

Balance sheet items sensitive to interest rate movements were analysed for the expected parallel increase in interest rates by 2%. The Bank modelled eight possible scenarios and the most likely alternative of a 2% parallel shift was selected for reporting purposes.

# Sensitivity/Impact

Balance Sheet items (in CZK millions)	31 December 2020	31 December 2019
Assets		
Receivables from clients	-321	-229
Receivables from banks	-1	0
Securities at amortised cost	-824	-635
Securities in FVOCI	-479	-373
Financial derivatives	0	-4
Payables		
Payables to banks	0	39
Payables to clients	513	3
Financial derivatives	7	15

The total impact of the parallel shock (+200 bp) on the Bank's capital was 9.06% as at 31 December 2020 (as at 31 December 2019: 11.44%).

## Liquidity risk

The Bank sees liquidity risk as the risk of losing the ability to meet its financial obligations when they fall due or when the Bank is unable to finance its assets. The Bank measures and monitors net cash flows in individual major currencies and at the same time compiles a daily liquidity gap analysis in all individual major currencies in which it has open positions. The Bank also uses a set of limits for liquidity risk management, compiles liquidity scenarios and has prepared a contingency plan for possible threats to the Bank's liquidity.

# **Contractual residual maturity**

## 31 December 2020

in CZK millions	Up to 3 months	3–12 months	1 to 5 years	Over 5 years	Not specified	Total
Cash and deposits with central banks	5	0	0	0	1	6
Receivables from banks	3,205	0	0	0	0	3,205
Receivables from clients	917	77	3,552	2,423	0	6,969
Securities valued through profit or loss	0	0	0	0	0	0
Debt instruments in FVOCI	159	661	7,170	4,311	0	12,301
Securities at amortised cost	0	207	2,645	4,309	0	7,161
Financial derivatives	9	0	0	0	0	9
Equity instruments in FVOCI	0	0	0	0	35	35
Participating interests with significant influence	0	0	0	0	1	1
Participating interests with decisive influence	0	0	0	0	4	4
Other financial assets	57	0	0	0	33	90
Total financial assets	4,352	945	13,367	11,043	74	29,781
Other non-financial assets	0	0	6	0	270	276
Total	4,352	945	13,373	11,043	344	30,057
Payables to banks	86	5	761	90	0	942
Payables to clients	2,434	12,763	0	5,509	0	20,706
Financial derivatives	12	0	0	0	0	12
Other financial liabilities	0	0	0	0	52	52
Total financial liabilities	2,532	12,768	761	5,599	52	21,712
Other non-financial liabilities	11	4	78	9	56	158
Provisions	1	7	1,595	1,691	17	3,311
Equity	0	0	0	4	4,872	4,876
Total	2,544	12,779	2,434	7,303	4,997	30,057
Net balance sheet position	1,808	-11,834	10,939	3,740	-4,653	0

# 31 December 2019

	Up to 3	3–12	1 to 5	Over	Not	
in CZK millions	months	months	years	5 years	specified	Total
Cash and deposits with central banks	20	0	0	0	1	21
Receivables from banks	1,108	0	0	0	25	1,133
Receivables from clients	850	636	3,207	748	0	5,441
Securities valued through profit or loss	0	158	0	0	0	158
Debt instruments in FVOCI	57	255	7,171	3,886	0	11,369
Securities at amortised cost	0	604	844	4,144	0	5,592
Financial derivatives	0	0	5	0	0	5
Equity instruments in FVOCI	0	0	0	0	34	34
Participating interests with significant influence	0	0	0	0	1	1
Participating interests with decisive influence					4	4
Other financial assets	29	0	0	0	24	53
Total financial assets	2,064	1,653	11,227	8,778	89	23,811
Other non-financial assets	2	2	1	0	167	172
Total	2,066	1,655	11,228	8,778	256	23,983
Payables to banks	175	386	827	22	0	1,410
Payables to clients	2,992	6,905	2	3,837	0	13,736
Financial derivatives	13	1	15	2	0	31
Other financial liabilities	0	0	0	0	76	76
Total financial liabilities	3,180	7,292	844	3,861	76	15,253
Other non-financial liabilities	22	51	89	2	54	218
Provisions	287	883	1,832	561	20	3,583
Equity	0	0	3	1	4,925	4,929
Total	3,489	8,226	2,768	4,425	5,075	23,983
Net balance sheet position	-1,423	-6,571	8,460	4,353	-4,819	0

Contractual liquidity of the main non-derivative financial liabilities at amortised cost and derivatives based on undiscounted cash flows

## a) Payables to banks and clients

## 31 December 2020

in CZK millions	Up to 3 months	3–12 months	1 to 5 years	Over 5 years	Total
Payables to banks	61	378	478	26	943
Payables to clients	2,435	12,764	2	5,509	20,710

### 31 December 2019

in CZK millions	Up to 3 months	3–12 months	1 to 5 years	Over 5 years	Total
Payables to banks	166	425	865	49	1,505
Payables to clients	2,994	6,906	3	3,837	13,740

## b) Derivatives settled on a net basis

The table below shows the Bank's derivative financial liabilities, which will be settled on a net basis and which are included in the relevant time baskets on the basis of the remaining maturity of the contract. The amounts shown below are contractual undiscounted cash flows.

# 31 December 2020

	Up to 3	3–12	1 to 5	Over	
in CZK millions	months	months	years	5 years	Total
Interest rate swaps	0	-5	0	0	-5

## 31 December 2019

in CZK millions	Up to 3 months	3–12 months		Over 5 years	Total
Interest rate swaps	2	-3	-1	0	-2

## c) Derivatives settled on a gross basis

Bank derivatives that will be settled on a gross basis include foreign exchange derivatives: foreign exchange forwards, currency swaps and currency interest rate swaps.

The table below shows the Bank's derivative financial liabilities, which will be settled on a gross basis and which are included in the relevant time baskets on the basis of the remaining maturity of the contract. The amounts shown below are contractual undiscounted cash flows.

# 31 December 2020

in CZK millions	Up to 3 months	3–12 months	1 to 5 years	Over 5 years	Total
Currency derivatives:					
Inflows	61	75	190	26	352
Outflows	-53	-86	-195	-26	-360

# 31 December 2019

in CZK millions	Up to 3 months	3–12 months	1 to 5 years	Over 5 years	Total
Currency derivatives:					
Inflows	59	266	294	49	668
Outflows	-55	-295	-317	-50	-717

## g) Operational risk

The Bank defines operational risk as the risk of loss as a result of deficiencies or failures of internal processes, human factors or systems, or the risk of loss as a result of external events, including the risk of loss as a result of violation of, or non-compliance with, a legal standard.

The main objectives of the Bank's operational risk management system are:

- protection of the Bank from possible negative consequences caused by operational risk;
- better information for decision making;
- meeting the requirements set by the CNB and the EU;
- compliance with best practices defined by the relevant EU regulations.

# 25. Transactions with related parties

Persons with a special relationship with the Bank, known as "Related parties"; see clause 2x) of the Notes.

#### Receivables from and payables to related parties

in CZK millions	31. 12. 2020 gross	31. 12. 2019 gross
Government zero-coupon bonds and other securities accepted by the central bank for refinancing, issued by government institutions	18,170	15,501
Receivables from clients	561	923
Debt securities	78	78
Participating interests with significant and decisive influence	5	5
Other assets	85	30
Payables to banks	0	0
Payables to clients	16,709	10,979
Other liabilities	38	14
Assurances and guarantees provided	300	300
Commitments and guarantees received	6,648	961
Pledges and collateral received	969	969

#### **Related party transactions**

in CZK millions	2020	2019
Interest income*	244	313
Interest expense	-27	-135
Revenues from shares and interests	0	9
Revenues from fees and commissions	306	224
Staff costs	–17	–15

\* The Interest income line is reduced by the payment of interest on credits received from the European Investment Bank, which is used to finance state infrastructure in the amount of CZK 37 million (as at 31 December 2019: CZK 56 million). The substance of the operation with the Ministry of Finance and the European Investment Bank is described in clause 6b). The value of individual transactions with related parties is quantified in the note to individual items in the Financial Statements.

# Receivables from persons with a special relationship with the Bank

As at 31 December 2020 and 31 December 2019, the Bank does not record receivables from persons with a special relationship with the Bank.

# 26. Fair value

The fair value of financial instruments is the amount for which an asset could be sold or a liability settled between informed parties in an independent transaction. Estimates of fair value are made on the basis of listed market prices, if available. However, there are no available market price listings for a significant part of the Bank's financial instruments. In cases where listed market prices are not readily available, fair value is estimated using discounted cash flow models or other acceptable pricing models. Estimates significantly affect changes in basic assumptions – discount rates, estimated future cash flows, etc. – and therefore these estimates may differ from the sale price of the financial instrument. The following methods and assumptions were used in estimating the fair value of the Bank's financial instruments.

#### Cash on hand and deposits with central banks

The book values of cash and balances with central banks correspond in principle to their fair values.

#### Securities measured at amortised cost

The fair values of securities are taken from the active market where these instruments are listed.

#### **Receivables from banks**

The fair value of receivables from banks is estimated on the basis of an analysis of discounted cash flows using interest rates currently offered for investments with similar terms (market rates adjusted to reflect credit risk).

#### **Receivables from clients**

The fair value of variable revenue credits without a significant change in credit risk is generally close to their book value. The fair value of credits with fixed interest rates is estimated using discounted cash flow analyses based on interest rates currently offered for credits with similar terms to borrowers of similar credit quality.

### **Payables to banks**

The fair value of term deposits repayable on demand approximates the book value of the amounts at the end of the period. The fair value of term deposits with variable interest rates approximates their book values at the end of the period. The fair value of fixed rate deposits is estimated by discounting their future cash flows using market interest rates.

# Financial instruments that are not measured at fair value in the Balance Sheet

The table below sets out the book values and fair values of financial assets and financial liabilities that are not carried at fair value in the accounting entity's Balance Sheet.

# 31 December 2020

in CZK millions		Book value	Fair value
FINANCIAL ASSETS			
1	Cash on hand and deposits with CB (level 2)	6	6
2	Government zero-coupon bonds and other securities (level 1)	7,161	7,230
3	Receivables from banks (level 2)	3,205	3,205
4	Receivables from clients (level 3)	6,963	6,606
8	Participating interests with significant influence (level 3)	1	1
8	Participating interests with decisive influence (level 3)	4	4
11	Other financial assets (level 3)	60	60
FINANCIAL LIABILIT	IES		
1	Payables to banks (level 2)	942	953
2	Payables to clients (level 2)	20,706	20,428
4	Other financial liabilities (level 2)	52	52

## 31 December 2019

in CZK millions		Book cost	Fair cost
FINANCIAL ASSETS			
1	Cash on hand and deposits with CB (level 2)	21	21
2	Government zero-coupon bonds and other securities (level 1)	5,592	5,511
3	Receivables from banks (level 2)	1,133	1,133
4	Receivables from clients (level 3)	5,423	5,009
8	Participating interests with significant influence (level 3)	1	1
8	Participating interests with decisive influence (level 3)	4	4
11	Other financial assets (level 3)	30	30
FINANCIAL LIABILIT	ES		
1	Payables to banks (level 2)	1,410	1,417
2	Payables to clients (level 2)	13,736	13,264
4	Other financial liabilities (level 2)	76	76

#### Hierarchy of fair values

IFRS 7 specifies a hierarchy of valuation techniques that is based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's assumptions. These two types of inputs form the following hierarchy of fair values:

- Level 1 Listed prices (unadjusted) in active markets for identical assets and liabilities. This level includes listed debt instruments on stock exchanges (e.g. the Prague Stock Exchange).
- Level 2 Other inputs (other than listed prices included within Level 1) that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices). This level includes over-the-counter derivative transactions. Bloomberg and Reuters are the source of input parameters such as PRIBOR or yield curves.
- Level 3 Inputs for the asset or liability that are not based on observable market data (invisible inputs). This level includes financial instruments with significant unobservable components.

The table below analyses financial instruments measured at fair value by level in the fair value hierarchy. The amounts are based on the values reported in the Bank's Balance Sheet.

31 December 2020 (in CZK millions)	Level 1	Level 2	Level 3
Financial assets at fair value		,	
Financial assets mandatorily recognised at fair value			
- Receivables from clients	0	0	6
Financial assets charged against costs or revenues			
– Debt securities	0	0	0
– Other assets	0	9	30
Securities in FVOCI			
– Equity instruments	0	0	35
– Debt instruments	12,301	0	0
Total assets at fair value	12,301	9	71
Financial liabilities against costs and revenues			
– Other liabilities	0	12	0
Total liabilities at fair value	0	12	0

# Financial instruments that are measured at fair value in the Balance Sheet

31 December 2019 (in CZK millions)	Level 1	Level 2	Level 3
Financial assets at fair value			
Financial assets mandatorily recognised at fair value			
- Receivables from clients	0	0	18
Financial assets charged against costs or revenues			
– Debt securities	159	0	0
– Other assets	0	5	23
Securities in FVOCI			
– Equity instruments	0	0	34
– Debt instruments	11,369	0	0
Total assets at fair value	11,528	5	75
Financial liabilities against costs and revenues			
– Other liabilities	0	31	0
Total liabilities at fair value	0	31	0

No reclassifications between levels were made during these periods.

# Reconciliation of opening and closing balances at level 3

in CZK millions	Equity instruments at FVOCI	Credits and receivables mandatorily at fair value	Credits and receivables at fair value through profit or loss	Total
Balance as at 1 January 2020	34	18	23	75
Gains and losses for the period recognised in the Profit and Loss Account	0	1	0	1
Gains and losses for the period recognised in equity	1	0	0	1
Purchases	0	0	7	7
Repayment	0	-13	0	-13
Balance as at 31 December 2020	35	6	30	71

# 27. Subsequent events

The following events that affect the operation of the company occurred after the date of the Financial Statements.

## National Development Fund SICAV, a.s.

In November 2020, the National Development Fund obtained a licence from the Czech National Bank and was incorporated on 1 February 2021. The company is registered in the Commercial Register kept by the Municipal Court in Prague, Section B, Insert 25987. The National Development Fund is a joint-stock company with variable registered capital, with 100% of the founding shares being owned by Českomoravská záruční a rozvojová banka, a.s. Its main objective is to provide riskier layers of project financing, especially in the field of infrastructure, through sub-funds in which private investors invest. The National Development Fund is a financial institution established under Czech and European law, regulated by the Czech National Bank, operating on the basis of the principle of return on invested funds collected from private investors. Abroad, such financial instruments and products are common, as are infrastructure funds (such as the EIB group); in the Czech Republic it is a novelty.

In connection with the measures of the Government of the Czech Republic in the area of assistance for self-employed persons and small and medium-sized entrepreneurs whose economic activity is limited as a result of the spread of coronavirus infection, the Bank expanded financial instruments with the following bank guarantees:

From 1 February 2021, the Bank began accepting applications for guarantees in the COVID SPORT programme. The aim of the programme is to help small and medium-

April 2021

## Governing body of the accounting entity

**Jiří Jirásek** Chairman of the Board of Directors

sized entrepreneurs operating in the field of sports to overcome the economic crisis situation caused by the spread of the coronavirus SARS-CoV-2 (or the disease called COVID-19, which the coronavirus causes). Projects can be implemented anywhere in the Czech Republic, except the City of Prague. The COVID SPORT guarantee is provided within the Expansion-Guarantees programme, which is financed from the ESI Funds within the Operational Programme Enterprise and Innovations for Competitiveness of the Ministry of Industry and Trade.

From 1 March 2021, the Bank began accepting applications for guarantees in the COVID Travel Guarantee programme. The aim of the programme is to contribute to the resolution of tourism problems resulting from the occurrence of coronavirus infection caused by the spread of the coronavirus SARS-CoV-2 (or the COVID-19 disease caused by the coronavirus) and related preventive measures, and to support, through bank guarantees, the access of travel agencies to bankruptcy insurance, which is mandatory for travel agencies according to Section 6 of Act No. 159/1999 Coll., on certain business conditions and activities in the field of tourism. The guarantee is provided for the purpose of its use by travel agencies as part of the co-participation in the maximum limit of indemnity required by the insurance company for concluding a contract for insuring a guarantee in the event of bankruptcy (insurance policy).

Apart from the above facts, the Bank's management is not aware of any other events that have a significant impact on these Financial Statements.

Fiah /

Pavel Fiala Member of the Board of Directors

REPORT OF THE BOARD OF DIRECTORS OF ČMZRB, A.S. ON RELATIONS BETWEEN AFFILIATED ENTITIES FOR THE FISCAL PERIOD OF 2020



# Report of the Board of Directors of Českomoravská záruční a rozvojová banka, a.s. on relations between affiliated entities for the fiscal period of 2020

# I. AFFILIATED ENTITIES

Controlled entity:

# Českomoravská záruční a rozvojová banka, a.s.,

with its registered office at Jeruzalémská 964/4, Prague 1, postal code 110 00, Company ID No.: 44848943, incorporated in the Commercial Register kept by the Municipal Court in Prague, Section B, Insert 1329 (hereinafter "ČMZRB").

# Controlling entity:

Czech Republic represented by:

- Ministry of Industry and Trade, with its registered office at Na Františku 32, Prague 1, postal code 110 15, Company ID No.: 47609109,
- Ministry of Regional Development, with its registered office at Staroměstské nám. 6, Prague 1, postal code 110 15, Company ID No.: 66002222,
- Ministry of Finance, with its registered office at Letenská 15, Prague 1, postal code 118 10, Company ID No.: 00006947.

The registered capital of Českomoravská záruční a rozvojová banka, a.s., in the amount of CZK 2,631,626,000, is divided into 10,988 registered shares, each with a par value of CZK 239,500, which are owned by the Czech Republic.

This Report has been prepared in accordance with Section 82 of Act No. 90/2012 Coll., on commercial companies and cooperatives, as amended, and provides, inter alia, an overview of all contractual relations between the controlling entity and the controlled entity and between the controlled entity and entities controlled by the same controlling entity that were effective in the fiscal period for which the Report on Relations is prepared, i.e. 2020.

The controlled entity represents a special state banking institution performing its activities in the public interest, designed to implement the measures of the economic policy of the Czech Republic and carried out through various types of financial instruments, in particular privileged bank guarantees and credits. Its role is to perform activities in the public interest from the position of a specialised banking institution, especially the implementation of programmes to aid small and medium-sized enterprises and other selected areas of the economy requiring state aid. The controlled entity fulfils this role by managing financial instruments using mainly the ESI Funds, funds from the European Fund for Strategic Investments and funds of the Czech Republic.

The relationship between the controlling entity and the controlled entity is balanced, the advantages and disadvantages are balanced and there are no significant risks arising from mutual relations. The relationship between the controlled entity and the entities controlled by the same controlling entity is also in balance.

In 2019, ČMZRB established a subsidiary, ČMZRB investiční, a.s., with its registered office at Na Florenci 1496/5, Nové Město, 110 00 Prague 1, in which it holds a 100% share. The company's objective is to fulfil the strategic goals of ČMZRB as a national development bank in the area of capital investments within the MIT programmes for small and medium-sized enterprises.

ČMZRB has one affiliate, which is MUFIS a.s., with its registered office at Jeruzalémská 964/4, 110 00 Prague 1. A participating interest of 49% is held by the Czech Republic, represented by the Ministry of Finance, Letenská 15, Prague 1. ČMZRB holds a participating interest of 49% and 2% is held by the Union of Towns and Municipalities of the Czech Republic, 5. května 1640/65, Prague 4.

# II. RELATIONS BETWEEN THE CONTROLLING ENTITY AND THE CONTROLLED ENTITY

In the relevant period, no damage occurred in connection with the fulfilment of the following contracts and agreements and their amendments, which ČMZRB concluded in 2020 or previous years in the following areas of its activities.

# 1. Programmes to support small and medium-sized enterprises

Agreement on the implementation of the Programme of loans for the business of workers released from the metallurgical industry, START, in 2000.

- Parties: ČMZRB and the Ministry of Industry and Trade
- Date of conclusion: 21 September 2000
- Subject matter: Determination of conditions for providing aid for the business activities of workers laid off from the metallurgical industry.

Agreement on the implementation of regional programmes to support small and medium-sized enterprises in the Czech Republic approved for the period 2001-2004, as amended by Amendment 1 of 4 April 2001, Amendment 2 of 2 October 2001, Amendment 3 of 14 January 2002 and Amendment 4 of 19 February 2002.

- Parties: ČMZRB and the Ministry of Regional Development
- Date of conclusion: 28 February 2001
- Subject matter: Negotiation of conditions for the implementation of programmes to aid small and medium-sized enterprises, namely PREFERENCES (PREFERENCE), OPERATION (PROVOZ), REGION, VILLAGE (VESNICE), REGENERATION (REGENERACE), BORDERS (HRANICE) and REGIONAL GUARANTEE (REGIOZÁRUKA), and conditions for the use and settlement of funds intended for financing the programmes.

Agreement on the implementation of the programme of support for entrepreneurs in areas affected by floods in 2002, RECONSTRUCTION (REKONSTRUKCE), as amended by Amendment 1 of 20 December 2002, Amendment 2 of 29 April 2003 and Amendment 3 of 26 January 2010.

- Parties: ČMZRB and the Ministry of Industry and Trade
- Date of conclusion: 18 September 2002
- Subject matter: Negotiating the conditions and procedures for the implementation of the programme of aid for entrepreneurs in areas affected by floods in 2002, RECONSTRUCTION (REKONSTRUKCE), and the use and settlement of funds intended to finance the programme.

Agreement No. 02/3220/051 on the use of funds from the Phare Revolving Fund managed by the Business Development Agency to finance the Programme of preferential loans for start-up entrepreneurs – START, as amended by Amendment 1 of 20 December 2002, Amendment 2 of 12 September 2003 and Amendment 3 of 26 April 2010.

- Parties: ČMZRB, the Ministry of Industry and Trade and the Business Development Agency
- Date of conclusion: 27 September 2002
- Subject matter: Negotiation of conditions and procedures under which funds from the Phare Revolving Fund provided on the basis of the Memorandum of Understanding of 12 August 1997 on the use of returned Phare programme funds concluded between the European Commission and the Ministry of Industry and Trade to finance the START programme will be provided and settled, starting in 2002.

Agreement on the implementation of selected programmes under the Operational Programme Industry and Enterprise in the years 2004-2006, as amended by Amendment 1 of 5 November 2004, Amendment 2 of 10 August 2005, Amendment 3 of 4 November 2005, Amendment 4 of 17 March 2006, Amendment 5 of 4 April 2006, Amendment 6 of 18 April 2009, Amendment 7 of 5 June 2012, Amendment 8 of 15 February 2013, Amendment 9 of 23 February 2015 and Amendment 10 of 25 March 2020.

- Parties: ČMZRB and the Ministry of Industry and Trade
- Date of conclusion: 20 May 2004
- Subject matter: The agreement stipulated the conditions and procedures for the implementation of the CREDIT (KREDIT), START and INNOVATION (INOVACE) programmes approved by Czech Government Resolution No. 414/2004 of 28 April 2004 and the conditions and procedures for the use and settlement of funds intended for financing these programmes under the Operational Programme Industry and Enterprise in the years 2004-2006.

Agreement on the implementation of programmes of support for small and medium-sized enterprises in the Czech Republic approved for the period 2005-2006, as amended by Amendment 1 of 16 March 2005, Amendment 2 of 11 July 2005, Amendment 3 of 25 August 2005, Amendment 4 of 14 September 2005, Amendment 5 of 29 November 2005, Amendment 6 of 30 December 2005, Amendment 7 of 4 April 2006, Amendment 8 of 3 May 2006, Amendment 9 of 30 August 2006, Amendment 10 of 4 January 2007, Amendment 11 of 23 August 2007, Amendment 12 of 30 November 2007, Amendment 13 of 26 January 2010, Amendment 14 of 22 June 2010, Amendment 15 of 21 May 2018 and Amendment 16 of 25 March 2020.

- Parties: ČMZRB and the Ministry of Industry and Trade
- Date of conclusion: 12 January 2005
- Subject matter: Determination of procedures and conditions for the implementation of the GUARANTEE (ZÁRUKA), MARKET (TRH) and PROGRESS (PROGRES) programmes and conditions and procedures for the use and financing of these programmes.

Agreement on the establishment, use and management of the Loan Fund R 2006 from the resources of the Phare Revolving Fund, as amended by Amendment 1 of 16 February 2009 and Amendment 2 of 25 March 2020.

- Parties: ČMZRB and the Ministry of Industry and Trade
- Date of conclusion: 21 November 2006
- Subject matter: Negotiation of conditions and procedures for the implementation of the CREDIT (KREDIT) programme in cases where the funds of the Loan Fund R 2006 are used for its financing, for the creation of which the funds of the Phare Revolving Fund were used.

Agreement on the implementation of the MARKET (TRH) programme and on the creation and management of a credit fund and a guarantee fund, as amended by Amendment 1 of 23 August 2007, Amendment 2 of 30 November 2007, Amendment 3 of 25 April 2012 and Amendment 4 of 21 September 2015.

- Parties: ČMZRB and the Ministry of Industry and Trade
- Date of conclusion: 14 May 2007
- Subject matter: Negotiation of conditions and procedures for the establishment of a loan and guarantee fund. In the part concerning the replenishment and administration of the Guarantee Fund P 2007, the Agreement was replaced by the Agreement on the Implementation of the MARKET (TRH) and GUARANTEE (ZÁRUKA) (guarantees for working capital loans) programmes and on the creation and administration of the Guarantee Fund P 2007, as amended.

Agreement on the completion of the implementation of the GUARANTEE (ZÁRUKA) and START programmes (preferential guarantees) and on the management of the E 2007 Guarantee Fund in the Operational Programme Enterprise and Innovation for the years 2007-2013.

- Parties: ČMZRB and the Ministry of Industry and Trade
- Date of conclusion: 4 May 2015
- Subject matter: Agreeing on the conditions and procedures for completing the implementation of the Programmes in cases where the resources of the E 2007 Guarantee Fund are used for their financing.

This agreement replaced the Agreement on the implementation of the GUARANTEE (ZÁRUKA), START (privileged guarantees) and PROGRESS (PROGRES) (annex) programmes and on the establishment and management of the E 2007 Guarantee Fund in the Operational Programme Enterprise and Innovation for the years 2007-2013.

Agreement on the implementation of the MARKET (TRH) and GUARANTEE (ZÁRUKA) (guarantees for working capital loans) programmes and on the creation and management of the P 2007 Guarantee Fund, as amended by Amendment 1 of 22 April 2009, Amendment 2 of 6 November 2009, Amendment 3 of 3 March 2010, Amendment 4 of 17 August 2010, Amendment 5 of 25 October 2010, Amendment 6 of 7 June 2011, Amendment 7 of 25 April 2012, Amendment 8 of 5 June 2012, Amendment 9 of 15 February 2013, Amendment 10 of 21 June 2013, Amendment 11 of 25 June 2014, Amendment 12 of 23 February 2015 and Amendment 13 of 9 December 2016.

- Parties: ČMZRB and the Ministry of Industry and Trade
- Date of conclusion: 16 February 2009
- Subject matter: Negotiation of conditions for the administration of the P 2007 Guarantee Fund.

Agreement on the implementation of the PROGRESS (PROGRES) and START programmes and on the creation and management of the E 2007 loan fund in the Operational Programme Enterprise and Innovation for 2007-2013, as amended by Amendment 1 of 12 July 2012, Amendment 2 of 21 June 2013, Amendment 3 of 11 December 2013, Amendment 4 of 4 May 2015, Amendment 5 of 21 May 2018 and Amendment 6 of 25 March 2020.

- Parties: ČMZRB and the Ministry of Industry and Trade
- Date of conclusion: 13 March 2009
- Subject matter: Regulation of mutual relations in the creation, supplementation and administration of the E 2007 Loan Fund and determination of procedures and conditions in the implementation of programmes.

Agreement on the creation and management of the SV 2012 guarantee fund (INOSTART), as amended by Amendment 1 of 30 April 2014, Amendment 2 of 25 June 2014, Amendment 3 of 15 February 2016 and Amendment 4 of 20 June 2019.

- Parties: ČMZRB and the Ministry of Industry and Trade
- Date of conclusion: 6 September 2012
- Subject matter: Creation, supplementation and administration of a guarantee fund to support innovative projects, including the establishment of procedures and conditions for the provision of guarantees.

Agreement on the creation and administration of the N 2013 Loan Fund, as amended by Amendment 1 of 25 June 2014, Amendment 2 of 21 September 2015 and Amendment 3 of 25 March 2020.

- Parties: ČMZRB and the Ministry of Industry and Trade
- Date of conclusion: 11 December 2013
- Subject matter: Regulation of relations in the creation, financing and administration of the N 2013 Loan Fund and negotiation of conditions and procedures for the implementation of the REVIT Programme.

Agreement on the implementation of the GUARANTEE 2015-2023 (ZÁRUKA 2015-2023) programme and on the creation and administration of the N 2015 Guarantee Fund, as amended by Amendment 1 of 21 September 2015, Amendment 2 of 8 February 2016, Amendment 3 of 23 August 2016, Amendment 4 of 9 December 2016, Amendment 5 of 26 October 2017, Amendment 6 of 21 May 2018 and Amendment 7 of 9 December 2019.

- Parties: ČMZRB and the Ministry of Industry and Trade
- Date of conclusion: 23 February 2015
- Subject matter: Determination of conditions and procedures for the implementation of the GUARANTEE 2015-2023 (ZÁRUKA 2015-2023) programme and negotiation of conditions for the administration of the N 2015 Guarantee Fund.

Agreement on the creation and administration of the NX 2017 Loan Fund, as amended by Amendment 1 of 1 June 2017, Amendment 2 of 22 December 2017 and Amendment 3 of 5 September 2018.

- Parties: ČMZRB and the Ministry of Industry and Trade
- Date of conclusion: 9 May 2017
- Subject matter: Regulation of relations in the creation, financing and administration of the NX 2017 Loan Fund and negotiation of conditions and procedures for the implementation of the ENERG Programme.

Agreement on the creation and management of the E 2017 Loan Fund, as amended by Amendment 1 of 21 May 2018, Amendment 2 of 19 November 2018, Amendment 3 of 11 November 2019, Amendment 4 of 28 April 2020 and Amendment 5 of 13 August 2020.

- Parties: ČMZRB and the Ministry of Industry and Trade
- Date of conclusion: 24 March 2017
- Subject matter: Regulation of relations in the creation, financing and administration of the E 2017 Loan Fund and negotiation of conditions and procedures for the implementation of the EXPANSION (EXPANZE) Programme.

Agreement on the creation and administration of the EX 2017 Credit Fund, as amended by Amendment 1 of 26 June 2018, Amendment 2 of 16 April 2019, Amendment 3 of 3 February 2020 and Amendment 4 of 6 August 2020.

- Parties: ČMZRB and the Ministry of Industry and Trade
- Date of conclusion: 21 June 2017

Subject matter: Regulation of relations in the creation, financing and administration of the EX 2017 Credit Fund and negotiation of conditions and procedures for the implementation of the ENERGY SAVINGS (ÚSPORY ENERGIE) Programme.

#### Agreement on the creation and management of the VC 2017 fund

- Parties: ČMZRB and the Ministry of Industry and Trade
- Date of conclusion: 20 December 2017
- Subject matter: Regulation of relations in the creation, financing and administration of the VC 2017 fund and negotiation of conditions and procedures for the implementation of investments in the Central Europe Fund of Funds.

Agreement on the implementation of the VADIUM programme and on the creation and administration of the V 2018 Guarantee Fund

- Parties: ČMZRB and the Ministry of Industry and Trade
- Date of conclusion: 26 June 2018
- Subject matter: Regulation of relations in the creation, financing and administration of the V 2018 Guarantee Fund and negotiation of conditions and procedures for the implementation of the VADIUM Programme.

Agreement on the creation and administration of the E 2018 Guarantee Fund, as amended by Amendment 1 of 27 March 2020, Amendment 2 of 22 May 2020 and Amendment 3 of 3 August 2020.

- Parties: ČMZRB and the Ministry of Industry and Trade
- Date of conclusion: 19 November 2018
- Subject matter: Regulation of relations in the creation, financing and administration of the E 2018 Guarantee Fund and negotiation of conditions and procedures for the implementation of the EXPANSION (EXPANZE) Programme.

Agreement on the creation and management of the COVID 2020 credit fund, as amended by Amendment 1 of 25 March 2020

- Parties: ČMZRB and the Ministry of Industry and Trade
- Date of conclusion: 16 March 2020
- Subject of the agreement: creation, supplementation and administration of the COVID 2020 Loan Fund, agreement on the conditions and procedures for the implementation of the Programme, regulation of relations and rights and obligations.

Agreement on the creation and management of the COVID PRAGUE (COVID PRAHA) 2020 guarantee fund, as amended by Amendment 1 of 15 July 2020

- Parties: ČMZRB, the Ministry of Industry and Trade and the City of Prague
- Date of conclusion: 16 April 2020
- Subject of the agreement: creation, supplementation and administration of the COVID PRAGUE (COVID PRAHA) Guarantee Fund, agreement on the conditions and procedures for the implementation of the programme, regulation of relations and rights and obligations.

Agreement on the creation and administration of the COVID III guarantee fund, as amended by Amendment 1 of 25 June 2020 and Amendment 2 of 22 December 2020

- Parties: ČMZRB and the Ministry of Industry and Trade
- Date of conclusion: 19 May 2020
- Subject matter: Regulation of conditions and relations in the creation and administration of the COVID III Guarantee Fund, transfer of funds from the state budget and disbursement of funds from the COVID III Guarantee Fund, creation of conditions for portfolio liability and regulation of other rights and obligations.

# 2. Programmes to support housing for citizens affected by floods

Agreement on the implementation of Government Regulation No. 190/1997 Coll., as amended by Amendment 1 of 30 October 2002, Amendment 2 of 31 October 2008 and Amendment 3 of 15 September 2014.

Parties: ČMZRB and the Ministry of Regional Development

- Date of conclusion: 23 September 1997
- Subject matter: Negotiation of mutual relations between the contracting parties aimed at the implementation of the Regulation of the Government of the Czech Republic No. 190/1997 Coll., on the provision of financial assistance in the area of housing to citizens affected by the floods in 1997.

Agreement on the implementation of Government Regulation No. 148/1997 Coll. and Government Regulation No. 149/1997 Coll., as amended by Amendment 1 of 23 June 1998, Amendment 2 of 30 March 1999, Amendment 3 of 29 April 1999, Amendment 4 of 26 April 2000, Amendment 5 of 30 October 2002, Amendment 6 of 31 October 2008 and Amendment 7 of 15 September 2014.

- Parties: ČMZRB and the Ministry of Regional Development
- Date of conclusion: 7 November 1997
- Subject matter: Negotiation of mutual relations between the contracting parties aimed at the implementation of Government Regulation No. 148/1997 Coll., on the provision of an interest-free loan for housing construction, and Government Regulation No. 149/1997 Coll., which lays down the conditions for providing additional financial assistance for mortgage lending.

# 3. Programme cooperation with other ministries

Agreement on the implementation of the Guarantee of International Development Cooperation (IDC) programme and on the creation and administration of the IDC 2019 Guarantee Fund

- Parties: ČMZRB and the Ministry of Foreign Affairs
- Date of conclusion: 19 December 2018
- Subject matter: Creation, supplementation and administration of the IDC 2019 Guarantee Fund and negotiation of conditions and procedures for the implementation of the IDC Guarantee (Záruka) programme, where the funds of the IDC 2019 Guarantee Fund are used for their financing.

Agreement on the creation and administration of the SP 2019 Loan Fund

- Parties: ČMZRB and the Ministry of Labour and Social Affairs
- Date of conclusion: 30 July 2019
- Subject matter: Regulation of relations in the creation, financing and administration of the SP 2019 Loan Fund and negotiation of conditions and procedures for the implementation of the S-enterprise Programme.

# 4. Credits to municipalities

Financial agreement on the establishment and management of the Regional Development Fund in the Czech Republic CZ 96.03.01, as amended by Amendment 1 of 23 May 2000, Amendment 2 of 30 June 2003, Amendment 3 of 18 December 2003, Amendment 4 of 16 June 2006, Amendment 5 of 28 April 2008, Amendment 6 of 11 February 2009, Amendment 7 of 18 October 2010, Amendment 8 of 20 October 2014, Amendment 9 of 21 September 2015 and Amendment 10 of 16 December 2020.

- Parties: ČMZRB and the Ministry of Regional Development
- Date of conclusion: 30 June 1999
- Subject matter: Establishment of the Regional Development Fund with the original goal of supporting the construction and development of industrial zones, which was subsequently expanded to support the development of transport, water and other municipal infrastructure, as well as setting principles for organising, managing and providing credits from the Regional Development Fund.

# 5. Provision of banking services

5.1 Contracts with state organisational constituents to ensure the implementation and administration of payments under infrastructure programmes

Agreement on securing the activities of a finance manager in connection with loans received from the European Investment Bank, Reg. No. 2001-9003.

- Parties: ČMZRB, the Ministry of Finance and the State Fund for Transport Infrastructure
- Date of conclusion: 3 September 2001

Subject matter: Arranging mutual relations between the contracting parties in securing activities related to credits received by ČMZRB from the European Investment Bank to finance programmes for the renewal and construction of transport and water management infrastructure in the Czech Republic.

Agreement on ensuring cooperation between the Ministry of Finance, the Ministry of Agriculture and ČMZRB in the implementation of measures included in the Water Management Investment Support Programme in the Czech Republic (EIB), Reg. No. 2002-9009, as amended by Amendment 1 of 16 August 2005.

- Parties: ČMZRB, the Ministry of Finance and the Ministry of Agriculture
- Date of conclusion: 24 February 2002
- Subject matter: Arranging mutual relations between the contracting parties in securing activities related to credits received by ČMZRB from the European Investment Bank and the Bank of the Council of Europe to finance programmes for the renewal and construction of water management infrastructure in the Czech Republic.

# Agreement on the management of financial resources for the Czech Motorways B Project, as amended by Amendment 1 of 22 December 2004 and Amendment 2 of 22 March 2013.

- Parties: ČMZRB, the Ministry of Finance and the State Fund for Transport Infrastructure
- Date of conclusion: 4 July 2002
- Subject matter: Arranging mutual relations between the contracting parties in securing activities related to the implementation of a credit received by the Czech Republic from the European Investment Bank for the Czech Motorways B Project.

Agreement on ensuring mutual cooperation in the implementation of the Czech Motorways B Project, as amended by Amendment 1 of 16 March 2005.

- Parties: ČMZRB and the Ministry of Transport
- Date of conclusion: 20 September 2002
- Subject matter: Negotiation of mutual relations between the contracting parties in the financing of the Czech Motorways B Project.

Agreement on ensuring mutual cooperation in the administration of payments of part of the interest on commercial loans under the programme 229 310 – Construction and renovation of water supply and sewerage infrastructure and programme 129 180 – Construction and renovation of water supply and sewerage infrastructure II, as amended by Amendment 1 of 15 October 2009 and Amendment 2 of 29 July 2010.

- Parties: ČMZRB and the Ministry of Agriculture
- Date of conclusion: 7 August 2008
- Subject matter: Negotiation of mutual relations between the contracting parties in the administration of payments of part of the interest on commercial credits within the two programmes for the construction and renewal of water management infrastructure.

Agreement on the administration of the owner's account with the Central Securities Depository.

- Parties: ČMZRB and the Ministry of Regional Development
- Date of conclusion: 29 August 2014
- Subject matter: Regulation of mutual rights and obligations of the contracting parties in the administration of the owner's account in the Central Securities Depository.

#### 5.2 Contracts for the establishment and maintenance of accounts

Agreement on the opening and maintenance of a special current account number 21/2006/U.

- Parties: ČMZRB and the Ministry of Industry and Trade
- Date of conclusion: 21 November 2006
- Subject matter: Agreement on the opening and maintenance of a special current account in CZK.

Agreement on the opening and maintenance of special current account No. 09/2009/U, as amended by Amendment 1 of 17 March 2011 and Amendment 2 of 10 May 2013.

- Parties: ČMZRB and the Ministry of Agriculture
- Date of conclusion: 15 October 2009
- Subject matter: Agreement on the opening and maintenance of special current accounts in CZK.

# 6. AML Cooperation Agreement

Agreement on cooperation within the Money Web Lite project

- Parties: ČMZRB and the Ministry of Finance Financial Analytical Department
- Date of conclusion: 21 May 2014
- Subject matter: Transmission of information for the purpose of fulfilling the statutory notification obligation.

# 7. Financial markets

In the course of 2020, ČMZRB accepted short-term deposits from the Ministry of Finance with a maturity of up to 14 days in the form of deposits and reverse repo operations. The operations took place under standard conditions for concluding transactions in the financial markets.

# III. RELATIONS BETWEEN THE CONTROLLED ENTITY AND OTHER ENTITIES CONTROLLED BY THE SAME CONTROLLING ENTITY

In the fiscal period, the contractual relations between ČMZRB and other persons controlled by the Czech Republic were concentrated on activities to the extent specified in items 1 to 12 of this chapter.

No damage occurred during the fiscal period in connection with the fulfilment of the following contracts and amendments. Individual banking services were performed under standard business conditions and ČMZRB did not incur additional costs, risks or any harm from them.

# 1. Implementation of a programme to aid repairs of apartment buildings

Agreement on the implementation of the Programme for the support of repairs of apartment buildings built with panel technology in the part concerning subsidies, as amended by Amendment 1 of 29 February 2012, Amendment 2 of 8 April 2013, Amendment 3 of 3 September 2013, Amendment 4 of 1 September 2014 and Amendment 5 of 11 August 2016.

- Parties: ČMZRB and the State Housing Development Fund, change of name to the State Fund for Investment Support as of 1 June 2020
- Date of conclusion: 21 December 2011
- Subject matter: Regulation of mutual relations between the State Housing Development Fund and ČMZRB in the implementation of the Regulation, the PANEL Programme to support repairs of apartment buildings built with panel technology and the NEW PANEL Programme to support repairs and modernisation of apartment buildings.

Agreement on the implementation of the Programme for the support of repairs of apartment buildings in the part concerning bank guarantees (Consolidated Agreement 2), as amended by Amendment 1 of 3 September 2013, Amendment 2 of 23 February 2017.

- Parties: ČMZRB and the State Housing Development Fund, change of name to the State Fund for Investment Support as of 1 June 2020
- Date of conclusion: 17 June 2013
- Subject matter: Regulation of mutual relations between the State Housing Development Fund and ČMZRB in the administration of guarantees provided under the PANEL Programme to support repairs of apartment buildings built with panel technology and the NEW PANEL Programme to support repairs and modernisation of apartment buildings for the period in which new guarantees will no longer be provided.

# 2. Implementation of relations with ČMZRB investiční, a.s.

Agreement on the provision of a voluntary shareholder surcharge outside the company's registered capital.

- Parties: ČMZRB and ČMZRB investiční, a.s.
- Date of conclusion: 18 December 2019
- Subject matter: Regulation of mutual relations between ČMZRB and ČMZRB investiční, a.s., in connection with the provision of a voluntary surcharge of the sole shareholder (ČMZRB) to the equity of ČMZRB investiční, a.s., outside the registered capital of ČMZRB investiční, a.s.

## Agreement on cooperation and provision of services

- Parties: ČMZRB and ČMZRB investiční, a.s.
- Date of conclusion: 6 May 2020
- Subject matter: Negotiation of more detailed conditions and the nature of services provided by ČMZRB for ČMZRB investiční, a.s., in order ito fully secure its activities.

Agreement on the fee for the provision of services pursuant to the Agreement on cooperation and provision of services of 6 May 2020

- Parties: ČMZRB and ČMZRB investiční, a.s.
- Date of conclusion: 29 May 2020
- Subject matter: Determination of the amount of the fee for the provision of services for 2020, resulting from the agreement on cooperation and provision of services concluded between ČMZRB and ČMZRB investiční, a.s.

# Execution of relations with MUFIS a.s. (originally Municipální finanční společnost a.s., abbreviated as MUFIS a.s.)

Mandate agreement, as amended by Amendment 1 of 20 December 2017 and Amendment 2 of 28 August 2018

- Parties: ČMZRB and MUFIS a.s.
- Date of conclusion: 7 November 2012
- Subject matter: ČMZRB, on behalf of MUFIS a.s. and on its account, for a fee, performs and procures activities aimed at the realisation of receivables and liabilities of MUFIS, as well as the company's obligations arising from generally binding regulations.

# 4. Execution of relations with the Czech Export Bank (Česká exportní banka, a.s.)

Agreement on the conditions for providing portfolio guarantees in the GUARANTEE 2015-2023 (ZÁRUKA 2015-2023) programme.

- Parties: ČMZRB and Česká exportní banka, a.s.
- Date of conclusion: 4 May 2015
- Subject matter: Establishment of principles for the coordination of procedures for the provision of bank guarantees for loans of Česká exportní banka, a.s. and principles for the inclusion of loans in the portfolio of guaranteed credits and information obligations of Česká exportní banka, a.s. to ČMZRB.

Agreement on cooperation in the provision of individual guarantees in the GUARANTEE 2015-2023 (ZÁRUKA 2015-2023) programme.

- Parties: ČMZRB and Česká exportní banka, a.s.
- Date of conclusion: 11 May 2015
- Subject matter: Establishment of principles for the coordination of procedures for the provision of bank guarantees for loans of Česká exportní banka, a.s. and information obligations of Česká exportní banka, a.s. to ČMZRB.

#### Partnership and cooperation memorandum

- Parties: ČMZRB and Česká exportní banka, a.s.
- Date of conclusion: 30 June 2017
- Subject matter: Support and financing of SMEs, development and joint implementation of financial instruments and preparation of their legislative environment.

Agreement on the temporary assignment of staff

- Parties: ČMZRB and Česká exportní banka, a.s.
- Date of conclusion: 17 April 2020
- Subject matter: Negotiation of more detailed conditions, rights and obligations in connection with the temporary assignment of employees of Česká exportní banka, a.s. to ČMZRB.

# 5. Implementation of relations with the Czech Development Agency and EGAP

# Partnership and cooperation memorandum

- Parties: ČMZRB, Czech Development Agency and Exportní garanční a pojišťovací společnost, a.s.
- Date of conclusion: 11 October 2017
- Subject matter: Exchange of information and coordination of activities, especially in the implementation of national programmes and the implementation of European Union initiatives; informing target groups about products and projects provided by ČMZRB, the Czech Development Agency and EGAP.

# 6. Implementation of relations with CzechInvest, Business and Investment Development Agency

### Partnership and cooperation memorandum

- Parties: ČMZRB and CzechInvest, Business and Investment Development Agency
- Date of conclusion: 10 October 2017
- Subject matter: Exchange of information and coordination of activities, especially in the provision of products in the regions, informing target groups about ČMZRB and CzechInvest products, support for startups, support for the development of brownfields, innovation and technology transfer.

### Cooperation agreement

- Parties: ČMZRB and CzechInvest, Business and Investment Development Agency
- Date of conclusion: 30 March 2020
- Subject matter: Determination of the conditions of the service consisting of telephone support for persons who have applied to ČMZRB for a preferential loan in the COVID Loan programme, during the inspection or preparation of documents necessary for the assessment of their applications.

# Cooperation agreement – COVID II

- Parties: ČMZRB and CzechInvest, Business and Investment Development Agency
- Date of conclusion: 9 April 2020
- Subject matter: Determination of the conditions of the service consisting in the support provided to ČMZRB and persons who submitted an application for the provision of a COVID II guarantee, in particular the checking of signed applications.

# 7. Implementation of relations to the State Environmental Fund

# Cooperation agreement – COVID II, COVID PRAGUE

- Date of conclusion: 15 April 2020
- Subject matter: Determination of the conditions of the service consisting in the support provided to ČMZRB and persons who submitted an application to ČMZRB for the provision of a COVID II and COVID Prague (COVID Praha) guarantee, in particular the checking of submitted applications.

# 8. Implementation of relations with the Technology Agency of the Czech Republic

## Partnership and cooperation memorandum

- Contractual relations: ČMZRB and the Technology Agency of the Czech Republic
- Date of conclusion: 19 March 2018
- Subject matter: Cooperation on the common interest in the support of research, experimental development and innovation with a focus on support for innovative small and medium-sized enterprises and their involvement in research and development projects in cooperation with research organisations.

# 9. Implementation of relations within the MIT project "Czech Republic – The Country For The Future"

# Memorandum on shared business support

Parties: MIT, ČMZRB, CzechInvest, CzechTrade, CzechTourism, ČEB, a.s., EGAP, a.s. and TA CR

- Date of conclusion: 2 October 2018
- Subject matter: Cooperation between partners through the exchange of information, sharing contacts, coordination of activities, strengthening horizontal links and other activities.

# 10. Provision of banking services

Internet Banking Agreement No. 09/2009/IB.

- Parties: ČMZRB and the State Fund for Investment Support
- Date of conclusion: 5 May 2009
- Subject matter: Mutual agreement of the parties enabling remote access of the client to ČMZRB Internet Banking.

Agreement on the establishment and maintenance of a special current account number 01/2016/U, terminated by the Agreement on the termination of contracts of 28 July 2020.

- Parties: ČMZRB and Exportní garanční a pojišťovací společnost, a.s.
- Date of conclusion: 23 December 2016
- Date of termination: 31 August 2020
- Subject matter: Agreement on the opening and maintenance of a special current account in CZK.

Framework agreement on term deposits No. 01/2016/T, terminated by the Agreement on the termination of contracts of 28 July 2020.

- Parties: ČMZRB and Exportní garanční a pojišťovací společnost, a.s.
- Date of conclusion: 23 December 2016
- Date of termination: 31 August 2020
- Subject matter: Agreement on the conditions for the establishment and management of term deposits in CZK.

Internet Banking Agreement No. 01/2019/IB, terminated by the Agreement on the termination of contracts of 28 July 2020.

- Parties: ČMZRB and Exportní garanční a pojišťovací společnost, a.s.
- Date of conclusion: 20 March 2019
- Date of termination: 31 August 2020
- Subject matter: Mutual agreement of the parties enabling remote access of the client to ČMZRB Internet Banking.

Agreement on management of current accounts No. 1/1999 of 16 April 1999, Amendment 1 of 30 June 2011, Amendment 2 of 17 December 2013 and Amendment 3 of 24 March 2015.

- Parties: ČMZRB and MUFIS a.s.
- Date of conclusion: 16 April 1999
- Subject matter: Agreement on management of current accounts in CZK.

Agreement on the establishment and maintenance of a special current account No. 23/2004/UE, as amended by Amendment 1 of 15 November 2005, Amendment 2 of 14 May 2009 and Amendment 3 of 6 December 2012

- Parties: ČMZRB and MUFIS a.s.
- Date of conclusion: 14 December 2004
- Subject matter: Agreement on the establishment and maintenance of a special current account in CZK and mutual agreement of the contracting parties enabling remote access of the client to ČMZRB Internet Banking.

Framework agreement on term deposits number 23/2004/T.

- Parties: ČMZRB and MUFIS a.s.
- Date of conclusion: 14 December 2004
- Subject matter: Agreement on the conditions for the establishment and management of term deposits in CZK.

Internet Banking Agreement No. 06/2009/IB.

- Parties: ČMZRB and MUFIS a.s.
- Date of conclusion: 14 May 2009
- Subject matter: Mutual agreement of the parties enabling remote access of the client to ČMZRB Internet Banking.

# Agreement on settlement of over-the-counter trades and transactions number 1/2015/MOT.

- Parties: ČMZRB and Česká exportní banka, a.s.
- Date of conclusion: 14 October 2015
- Subject matter: Settlement of agreed securities transactions on the basis of an instruction from the Czech Export Bank, as well as the conclusion and settlement of block transactions between the contracting parties.

Agreement on cooperation in payments made by type A postal orders.

- Parties: ČMZRB and Česká pošta, s.p.
- Date of conclusion: 30 January 2006
- Subject matter: Arrangement of mutual relations between the contracting parties in the execution of payment transactions via type A postal orders.

#### **Cooperation agreement**

- Parties: ČMZRB and the State Fund for Transport Infrastructure
- Date of conclusion: 26 May 2017
- Subject matter: creation of a framework for cooperation between the contracting parties to secure payments for selected projects in the transport sector, which are financed from the budget of the State Housing Development Fund.

### Agreement on the opening and maintenance of a special current account number 04/2017/UK.

- Parties: ČMZRB and Podpůrný a garanční rolnický a lesnický fond, a.s.
- Date of conclusion: 13 March 2018
- Subject matter: Agreement on the opening and maintenance of a special current account in CZK with an overdraft facility.

#### Framework agreement on term deposits number 01/2017/TC.

- Parties: ČMZRB and Podpůrný a garanční rolnický a lesnický fond, a.s.
- Date of conclusion: 13 March 2018
- Subject matter: Agreement on the conditions for the establishment and management of term deposits in CZK.

#### Internet Banking Agreement No. 02/2017/IB.

- Parties: ČMZRB and Podpůrný a garanční rolnický a lesnický fond, a.s.
- Date of conclusion: 13 March 2018
- Subject matter: Mutual agreement of the parties enabling remote access of the client to ČMZRB Internet Banking.

#### Agreement on the opening and maintenance of a special current account number 03/2019/U.

- Parties: ČMZRB and ČMZRB investiční, a.s.
- Date of conclusion: 3 September 2019
- Subject matter: Agreement on the opening and maintenance of a special current account in CZK, an account for a subsidiary.

## Internet Banking Agreement No. 02/2019/IB.

- Parties: ČMZRB and ČMZRB investiční, a.s.
- Date of conclusion: 3 September 2019
- Subject matter: Mutual agreement of the parties enabling remote access of the client to ČMZRB Internet Banking.

# Framework agreement on term deposits number 03/2019/T.

- Parties: ČMZRB and ČMZRB investiční, a.s.
- Date of conclusion: 3 September 2019
- Subject matter: Agreement on the conditions for the establishment and management of term deposits in CZK.

## Agreement on the opening and maintenance of a special current account number 02/2020/U.

- Parties: ČMZRB and ČMZRB investiční, a.s.
- Date of conclusion: 26 March 2020
- Subject matter: Agreement on the opening and maintenance of special accounts in CZK, an account for a subsidiary. (IPO Fund)

Agreement on the opening and maintenance of a special current account number 03/2020/U.

- Parties: ČMZRB and ČMZRB investiční, a.s.
- Date of conclusion: 26 March 2020
- Subject matter: Agreement on the opening and maintenance of special accounts in CZK, an account for a subsidiary. (Brownfield fund)

Agreement on the opening and maintenance of a special current account number 01/2020/U.

- Parties: ČMZRB and ČPP Transgas, s.p.
- Date of conclusion: 13 February 2020
- Subject matter: Agreement on the opening and maintenance of a special current account in CZK.

Framework agreement on term deposits number 1/2020/T.

- Parties: ČMZRB and ČPP Transgas, s.p.
- Date of conclusion: 13 February 2020
- Subject matter: Agreement on the conditions for the establishment and management of term deposits in CZK.

# 11. Other

Agreement on the use of a payment machine to pay for postal services number 2017/26469

- Parties: ČMZRB and Česká pošta, s.p.
- Date of conclusion: 12 December 2017
- Subject matter: Agreement on the conditions and use of the NEOPOST stamping machine

Hybrid Mail Services Agreement No. 2018/18523

- Parties: ČMZRB and Česká pošta, s.p.
- Date of conclusion: 20 December 2018
- Subject matter: Agreement on the conditions and use of the Hybrid Mail service

# 12. Financial markets

During 2020, ČMZRB accepted deposits from Česká exportní banka, a.s., Exportní garanční a pojišťovací pojišťovna, a.s. and MUFIS a.s., in the form of short-term deposits with a maturity of up to 30 days. The operations took place under standard conditions for concluding transactions in the financial markets.

In Prague, on 28 January 2021

Jiří Jirásek Chairman of the Board of Directors

fiah / IL.

Pavel Fiala čMember of the Board of Directors

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